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GENERAL

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1. Rio Pact not to alter US Antarctic policy--The Department of State, commenting on the proposal to include a part of Antarctica in the "hemisphere defense zone," has suggested to the US Delegation at Rio that because Argentina, Chile, and the UK have conflicting claims to that part of Antarctica, Great Britain might protest its inclusion in the "defense zone," and Argentina and Chile might later invoke the treaty provisions against the UK.

The Department has also suggested to the US Delegation that it make a formal statement reaffirming the US policy of non-recognition of any claims to Antarctic territory.

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EUROPE

3. FRANCE: Cabinet considering appeal to Moscow for wheat--US Ambassador Caffery in Paris has been informed by "two independent and trustworthy sources" that: (a) the Ramadier Cabinet is considering an appeal to Moscow for wheat; (b) the appeal is being urged not only by Communists but also by certain Socialists who consider that the USSR should be "put on the spot."
4. RUMANIA: Purge of Armed Forces undertaken without King's permission--US Military Representative ACC Rumania reports that the long-awaited purge of the Rumanian Armed Forces will begin on 1 September. The measure has been secretly ordered by the Deputy Chief of Staff, despite King Michael's objections, and is viewed by the US Representative as another example of the King's waning authority.

DIA and DOS Reviews Completed

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NEAR EAST-AFRICA

5. IRAN: USSR presents threatening note to Qavam--US Ambassador Allen reports that Soviet Ambassador Sadchikoff has delivered to Minister Qavam a note which: (a) states that Qavam's uncooperative attitude in the oil matter is regarded as a sign of enmity toward the USSR; and (b) insists that the Soviet-Iranian oil agreement of 4 April 1946 be implemented by the Iranian Government without delay.

Allen states that neither Qavam nor members of the Majlis give any indication of wavering in their determination to reject any Soviet oil proposals and that Iranian opinion against the USSR has solidified.

FAR EAST

6. CHINA: Conscription program marked by usual incompetency --US Consulate General Shanghai reports that the National Government's conscription program in Shanghai and surrounding provinces is being carried out with "disgraceful incompetency and corruption." The Consulate General believes that this development "augurs ill" for the Government's recently announced all out anti-Communist campaign.

(CIG Comment: Despite announced plans for sweeping reforms and the recommendations of the US Army Advisory Group, the Chinese National Government continues to weaken its current military position by adhering to its age-old conscription system.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Secretary Marshall has requested that the US Joint Chiefs of Staff study the problem of the withdrawal of UK troops from Greece and Italy (see item 1).

GREECE

As the Cabinet crisis continues, it is becoming increasingly evident that any government which may be formed will retain most of the Rightists from the old Cabinet and will be unable to inspire the confidence of the people.

INDONESIA

It is believed that the Netherlands Cabinet has agreed to accept the good offices offered by the Security Council on 25 August. The Security Council's offer will probably also be accepted by the Indonesian Republic in the hope that the good offices will eventually take the form of arbitration in the Dutch-Indonesian dispute. The Netherlands is opposed to settlement by arbitration on the grounds that the problem is of an internal constitutional nature and thus not susceptible of outside judgment.

KOREA

The US proposal for a conference in Washington on the Korean problem has been delivered to the UK, the USSR, and China, the other three signers of the Moscow Agreement. Ambassador Smith in Moscow indicates that the USSR is unlikely to accept the US suggestion of immediate zonal elections (see item 8).

CHINA

Secretary Marshall has directed a letter to the Foreign Minister indicating US unwillingness to participate in Four Power discussions preliminary to the Japanese peace conference. (see item 2).

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GENERAL

1. US requests that the JCS study UK troop withdrawals--The Department of State has informed US Embassy London of Secretary Marshall's request that the US Joint Chiefs of Staff: (a) study the implications of the intended withdrawals of UK troops from Greece and Italy (see Daily Summary of 25 August, item 2), exploring the possibility of the alternative withdrawal of even larger numbers of UK troops from less sensitive areas; and (b) consult with the British Chiefs of Staff with a view to formulating positive recommendations on this problem to the US and UK Governments. (The Department had recently suggested to Secretary Marshall in Petropolis that the problem of retaining UK troops in Greece and Italy be approached through military channels, after concluding that diplomatic representations had failed.)
2. US reply to China's statement on Japanese peace--Secretary Marshall has directed a letter to the Chinese Foreign Minister pointing out that the "principle of eleven-power participation" would be compromised if the Four Powers met separately to reach agreement on a Japanese peace conference as suggested earlier by the Foreign Minister (see Daily Summary of 25 August, item 4). The Secretary's letter: (a) states that the purpose of a Four Power meeting can be better achieved if China and other interested governments individually attempt to obtain Soviet participation in the peace conference; and (b) re-emphasizes the need for an early start on a peace settlement.

US Ambassador Stuart has been instructed to inform the Foreign Minister orally of Secretary Marshall's opinion that the Chinese National Government is overly-concerned about the effect on the Dairen issue of peace treaty discussions without Soviet participation, since there is no prospect that the USSR, even if it takes part in peace discussions, will make any early change in its policy of effectively denying Dairen to the Chinese.

(CIG Comment: While Secretary Marshall's reply should convince the Chinese Government that the US intends to maintain a firm position toward the USSR on Japanese peace questions,

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Chinese policy will probably continue to be dominated by fears of:
(a) Soviet reaction to a peace treaty concluded without USSR participation; and (b) a new Japanese menace in the Far East.)

3. UK economic difficulties affect civil air policy--An official of the Ministry of Civil Aviation has told the US Civil Air Attache in London that because of the world trend toward "restrictionism" in international trade, he feels that the October Rio Conference will offer the last chance for a liberal multilateral air agreement which will be favorable to the "strong" air transport countries. The Attache reports that the official indicated that British economic difficulties are beginning to affect air policy and that a program of retrenchment for British civil aviation is contemplated. The Civil Air Attache believes that the UK may lead a movement directed against US air policy if the Rio negotiations fail.

(CIG Comment: It is unlikely that the UK will make a clear break with the US on civil air policy so long as there is the prospect of a successful outcome of the European economic recovery program.)

EUROPE

4. FRANCE: Communists plan "famine committees"--US Embassy Paris reports that according to a "trustworthy informant" the Communist Party is preparing to set up "committees against famine and misery" throughout France. According to the informant, the Communist-led General Confederation of Labor is to call upon both Socialists and Communists to join committees of this nature with a view to organizing manifestations, agitations, propaganda, and incidents.

(CIG Comment: Such Communist moves have every prospect of success as long as the French food shortage continues.)

5. GERMANY: Possible demilitarization of the SMA--According to have

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stated that the Soviet Military Administration (SMA) is about to be converted into a civilian administration by placing leading political officers in a civilian status and sending additional civilians from the USSR.

(CIG Comment: Such a reorganization of the SMA would: (a) place under the Soviet Foreign Office those SMA officials who have reportedly tended to disagree with the policy of the Foreign Office--see Daily Summary of 20 August, item 6; and (b) ease the transition of the Soviet Zone Germany from the status of a conquered area to that of a Soviet Satellite.)

6. AUSTRIA: Assets negotiations with the USSR postponed--US Legation Vienna reports that the Foreign Ministry has agreed to postpone bilateral negotiations with the USSR on the German assets problem (see Daily Summary of 25 August, item 7). The decision whether to initiate such talks will not be made until after the Austrian Treaty Commission completes its discussions.

7. YUGOSLAVIA: Existence of International Brigade doubted--Ambassador Cannon in Belgrade expresses doubt that an international brigade is being formed to take part in Greek guerrilla warfare. Cannon points out that adequate personnel is readily available to the guerrillas in the border areas of Yugoslavia, Albania, and Bulgaria and that the use of such personnel instead of an international brigade does not involve the risk of "serious international repercussions." Cannon believes that the rumors of recruiting personnel for an international brigade may have originated from the recruitment of European youth for Yugoslavia labor projects.

(CIG Comment: The existence or non-existence of an international brigade has not yet been definitely established. Ambassador Cannon's opinion cannot be accepted as final in view of: (a) continuing rumors; and (b) some evidence to the contrary

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FAR EAST

8. KOREA: USSR unlikely to accept US proposals--Ambassador Smith in Moscow believes that the USSR is not likely to accept the US proposals for immediate zonal elections in Korea. Smith warns, however, that if the USSR does accept the proposals, such acceptance will be a clear indication that the USSR is confident of achieving final control of Korea through the carrying out of the US program.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Departments of State and War have approved the communique on the London tripartite level-of-industry talks.

GREECE

Prolongation of the Cabinet crisis will lead to further loss of confidence in the Government and will therefore enable the guerilla forces to operate with increased effectiveness.

INDONESIA

High officials of East Indonesia and West Borneo, whose states have been denied a voice in UN Security Council discussions on the Indonesian situation, condemn the present Indonesian Republican Government as unrepresentative and undemocratic.

KOREA

The Department of State has instructed the US Delegation to the Joint Commission not to propose a recess while awaiting a reply to the proposal of a four-power conference.

CHINA

Wedemeyer's departing statements in China have come as a rude shock to the Chinese National Government and have apparently made Chiang Kai-shek concerned over the security of his own position (see item 5).

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GENERAL

1. Turkey considering declaration of solidarity with Greece--The Turkish Government has asked US Ambassador Wilson for an expression of US views concerning a possible Turkish declaration of political and economic solidarity with Greece. Wilson interprets Turkey's proposed move as an effort to counter Yugoslav-Bulgarian cooperation directed against Greece. Wilson believes that the Turkish Government should defer its decision on this matter until after the UN General Assembly has considered the Greek case.

2. USSR rejects US note on Dairen--The USSR, in reply to the US note on Dairen (see Daily Summary of 13 August, item 7), has categorically rejected "any attempt to burden the USSR with responsibility for treatment of American interests" in Dairen. The Soviet note declares that: (a) Dairen must remain under the Port Arthur Naval Base regime until the Japanese peace treaty is signed; and (b) the Chinese National Government has failed to fulfill its administrative functions in Dairen "for reasons beyond Soviet control."

(CIG Comment: The Soviet line of reasoning indicates clearly that the USSR intends to retain exclusive control over Dairen as long as possible.)

3. UK to sell aircraft to new Iranian airline--The Ministry of Civil Aviation has advised US Ambassador Douglas in London that British aircraft will be sold to Eagle Airways, a new Iranian airline, and that British Overseas Airways Corporation (BOAC) will conclude a management contract with the line.

(CIG Comment: The UK had previously assured the US that BOAC would not "intervene in Transcontinental and Western Air (TWA) affairs" in Iran. Although the UK now asserts that Eagle Airways will not compete with Iranian Airways (Iranair), with which TWA has a virtually inoperative management contract, Eagle operations will probably be disadvantageous to Iranair and reduce the chances that US technical assistance in Iranian air transport will be maintained; see Daily Summary of 25 August, item 10.)

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EUROPE

4. USSR: US to answer Soviet note on Petkov case--The Department of State has instructed US Embassy Moscow to join with the UK Embassy Moscow in informing the USSR that its rejection of the US proposals on the Petkov case (see Daily Summary of 26 August, item 4) constitutes a violation of the obligations assumed by the USSR at Yalta and negates the rights of the US as a signatory to the Bulgarian armistice.

FAR EAST

5. CHINA: Government shocked by Wedemeyer statements--US Ambassador Stuart reports that the departing statements made by General Wedemeyer unquestionably came as a "rude shock" to the Chinese National Government, even though most nonpartisan and liberal Chinese largely endorsed Wedemeyer's views. Stuart adds that Chiang Kai-shek had tried earlier to persuade Stuart to caution Wedemeyer against being too critical and is now preoccupied with the question whether the US may be planning to force the Generalissimo's retirement from office.
6. BURMA: AFL rejects Communist proposal for reunion--US Consul General Rangoon has been informed by a member of the Burmese Cabinet that the re-entry of the White Flag Communist Party into the Anti-Fascist League (AFL) has been blocked by the refusal of the Communists to accept the terms of reunion as laid down by the AFL.

(CIG Comment: The possibility that the White Flag and Red Flag Communists will join forces is now greater, but the union is still improbable. However, in view of the mounting political tension in Burma, widespread violence is likely to increase and may result in another attempted coup d'etat.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The US, UK, and French delegations to the tripartite talks in London on German level of industry have reached agreement on a communique (see item 1).

GREECE

Tsaldaris has apparently abandoned his efforts to secure the cooperation of the Liberal Party in forming a cabinet and now threatens to form an Extreme Rightist government. It is believed that such a government could not survive in view of present Parliamentary and popular opposition.

INDONESIA

The UN Security Council has again called on the Netherlands and the Indonesian Republic to comply with the cease-fire order of 1 August. Meanwhile, the Netherlands has taken another step toward the formation of the projected United States of Indonesia by recognizing an autonomous government in East Borneo.

KOREA

In an attempt to reach some decision on the Korean problem, the Department of State has sent a note to the four signatories to the Moscow Agreement calling attention to the deadlock in Joint Commission negotiations and asking those governments to send delegates to a conference beginning 8 September in Washington (see item 3).

CHINA

One of the outstanding obstacles faced by the Chinese National Government in its efforts to reinforce Manchuria is that senior Nationalist commanders in North China are reluctant to release a portion of their own troops because of the uncertain political situation within China (see item 4).

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GENERAL

1. Communique proposed on level-of-industry talks--US Ambassador Douglas reports that the US, UK, and French delegations to the London talks have agreed on a communique which will be referred to the respective governments for approval. The communique will include a statement that the French delegation cannot withdraw its objections to the level-of-industry agreement until there is "a satisfactory outcome" to the forthcoming Berlin discussions of French proposals on the export of Ruhr coal. The US delegation recommends US agreement to the communique and recommends further that, even if the French Government refuses to agree to the communique, the new level of industry be published on 1 September.
2. UK seeks immediate discussion of bizonal financing--The UK Government has suggested in a note to the Department of State that US-UK discussions leading to a revision of the present agreement for the financing of the US and UK Zones Germany be initiated at the earliest possible moment. The note declared that the UK will be unable to provide further dollars for German expenditures when the current appropriation is exhausted (approximately at the end of December), but is prepared to discuss possible contributions from non-dollar sources.

FAR EAST

3. KOREA: Soviet Delegation continues dilatory tactics--The US Delegation to the Joint Commission reports that the present deadlock is so complete that it will be difficult to agree on even a factual joint report. General Hodge states that Soviet tactics still consist of unacceptable counter-proposals and propaganda against "oppressive" US policies in South Korea.

(CIG Comment: The complete failure of the Soviet Delegation to make a plausible case for the continuing of the Joint Commission, combined with the rather weak USSR propaganda line, indicates the possibility that a surprise Soviet proposal will be made at a forthcoming conference in Washington. This might be a suggestion for the immediate withdrawal of both US and USSR occupation forces.)

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4. CHINA: Nationalist commanders unwilling to release troops for Manchuria-- According to US Ambassador Stuart, the British Military Attache in Nanking has been reliably informed that Chiang Kai-shek was unable to persuade General Hu Tsung-nan in Yen-an to release part of his troops for reinforcement of Manchuria. (General Hu, Nationalist Commander in the Yen-an area, is regarded as one of Chiang's most faithful supporters.) Stuart adds that General Fu Tso-yi, commanding Nationalist forces in the Kalgan area, may be similarly reluctant to part with any of his troops during the current political instability in China. Stuart observes that Chiang's Government is still compelled to effect troop movements "largely by negotiations rather than by the issuance of orders."

THE AMERICAS

5. PARAGUAY: Government to hold elections--US Embassy Asuncion reports that President Morinigo has told a group of foreign diplomats that he intends to hold elections "in due course," and that he will turn over the Government to the victorious party.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The Chairman of the CEEC doubts whether Western Europe can be self-supporting by 1952. Clayton recommends that the US impose certain necessary conditions upon US acceptance of the CEEC report (see item 1).

GREECE

Continued resistance on the part of the opposition makes it highly unlikely that any effective government under Tsaldaris can be formed (see item 6).

INDONESIA

US Embassy The Hague reports a growing belief in the Netherlands that Russia will sabotage any decisions of the UN not favorable to the Indonesian Republic.

KOREA

US-USSR negotiations have reached a critical stage and significant developments are expected within the next few days.

CHINA

A political and economic crisis of record severity is likely to follow the 24 August statement made by General Wedemeyer on his departure from China. In reaction to this statement, the Chinese National Government will probably reiterate that governmental reforms cannot be carried out so long as it is compelled to prosecute the civil war without foreign aid.

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GENERAL

1. Requirements desired in CEEC report--The Department of State believes that there must be major changes in both the content and conclusions of the report which is being drawn up by the Committee for European Economic Cooperation (CEEC). The Department feels that the report in its present form does not meet the following essential standards: (a) achievement of a self-sustaining European economy; (b) maximum realization of mutual aid; and (c) concentration of aid at points where it will produce the maximum immediate recovery. While the Department believes that the US must not create the impression that it is directing the specific content of the report or delaying its preparation, publication of a report not meeting the essential requirements of the recovery program would do irreparable harm by evoking serious criticism in the US and by further undermining the confidence of European nations in their ability to help themselves.

Clayton's views on the CEEC report--Under Secretary Clayton has told Sir Oliver Franks, Chairman of CEEC, that the figure for US aid of 28.2 billion dollars, tentatively reached by the CEEC, is "out of the question." Clayton got the impression that: (a) Franks is very reluctant to initiate discussion in the Conference of living standards relative to pre-war and post-war conditions; and (b) the Conference is not likely to arrive at a program which would bring actual dollar requirements much below the preliminary summation. Upon being informed of the Department of State's objections to the report in its present form, Franks expressed doubt whether Western Europe, under any reasonable assumptions, can reach a completely self-supporting status by 1952.

Clayton recommends that the US inform the Conference that it must plan on the annual export of 25 to 30 million tons of coal by the UK by 1951 and consider that France will again be practically self-sustaining in bread grains by that date. Clayton is convinced that the only way for the US to deal with the CEEC report is to impose necessary conditions.

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2. Australian position on Japanese peace talks--US Ambassador Butler reports that the view of Australian Minister of External Affairs Evatt concerning possible delay in convening a Japanese peace conference is that: (a) it is urgently necessary to hold the peace conference before the UN General Assembly meeting, because the otherwise crowded program may postpone the conference several months; and (b) the conference must be held promptly, even if the USSR refuses to attend.
3. Partial Turkish demobilization unlikely to affect USSR policy--US Ambassador Smith in Moscow reports his opinion that a partial demobilization of the Turkish Army (see Daily Summary of 19 August, item 6) would not materially affect Soviet policy toward Greece, Turkey, and Iran, particularly if accompanied by an official Turkish statement which would: (a) reiterate Turkish determination to defend itself against aggression; and (b) point out that a reduction in the financial burden of maintaining large forces under arms would improve Turkey's capacity to resist aggression, should the need arise.
4. USSR rejects US protest on Petkov case--The Soviet Government has refused the recent US proposal that the Bulgarian Government be directed by the ACC to delay the execution of Nikola Petkov, pending ACC review of the case. The USSR contends that ACC Bulgaria has no authority to review decisions of Bulgarian courts, and that such a review would be an infringement upon Bulgarian sovereignty. The Soviet note likewise rejects the US proposal that consultations be undertaken among the three powers represented at the Yalta Conference in an effort to work out a concerted policy regarding the Petkov case.

(CIG Comment: A similar Soviet position may be expected in the September trial of Maniu in Rumania or in any future case in which the Western Powers seek to check the elimination of non-Communist elements from Satellite politics.)

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EUROPE

5. AUSTRIA: Keyes desires US aid for Soviet zone--US Commanding General Keyes believes that, in view of the Soviet refusal to admit US relief into eastern Austria under the control provisions of the US-Austrian Relief Agreement, it is necessary to protect Austria's economic unity by supplying eastern Austria with food from US military relief stocks. Keyes declares that failure to supply this aid will: (a) result in greater over-all US relief requirements for Austria; and (b) be a first step toward the division of Austria.

6. GREECE: Government impasse continues--According to US Ambassador MacVeagh, Prime Minister Tsaldaris has proposed to Sophoulis (leader of the Liberal Party) that: (a) Populists and Liberals unite to form a new government, with Sophoulis presiding over the Council of Ministers and with Tsaldaris functioning as "active" Prime Minister because of Sophoulis' advanced age; (b) the portfolios be distributed equally between Populists and Liberals; and (c) Tsaldaris and Sophoulis each have veto power over any Cabinet appointment.

Sophoulis replied that: (a) because the Government has failed, the opposition (Liberal Party) should form the new government; and (b) if the Liberals collaborate with the Populists, the Cabinet's policy must be wholly that of the Liberal Party. Mac Veagh is not hopeful of an effective coalition between Populists and Liberals, because he believes that Sophoulis considers Tsaldaris' proposals a sign of weakness and is therefore possibly anticipating that, by holding out a little longer, the Liberals may be able to take over the whole government.

NEAR EAST-AFRICA

7. IRAN: Soviet intimidation of Iran continues--US Ambassador Allen Tehran has been informed by a confidential representative of Qavam that the Iranian Government has received reports of 10,000 Barzani (Kurdish) tribesmen concentrated on the Azerbaijan border by the USSR, for the purpose of creating disturbances in Iran which

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will serve as a pretext for Soviet military intervention. Allen's informant also stated that the Soviet Embassy is endeavoring to start "a pro-Soviet movement" among Iranian officials on the ground that "great turmoil" is imminent in Iran.

(CIG Comment: The Barzanis now in the USSR are believed to number not more than 1500. It is considered likely that the USSR will use them, as well as other tribal elements, to promote Iranian unrest.)

FAR EAST

8. CHINA: USSR policy toward China--According to the US Naval Attache Nanking, USSR officials in China have stated that: (a) Soviet Ambassador Petrov will return to China, probably in September; and (b) there will be no change in Soviet policy in China until US policy changes. (Petrov left Nanking for Moscow in June. At that time Soviet officials in China reportedly interpreted his departure as the first step in a new USSR policy of "getting tough with China.")

(CIG Comment: It is believed likely that the Kremlin will maintain an outwardly "correct" attitude toward China, at least until the USSR is in a position to judge the effectiveness of any additional US assistance that might be extended to the Chinese Nationalist Government.)

THE AMERICAS

9. PARAGUAY: Reactivation of US Missions recommended--US Charge Trueblood in Asuncion has recommended that the US Air and Ground Missions in Paraguay be authorized to resume operation. (The Missions were suspended in March in view of the possibility that their activities would be considered military intervention by the US in Paraguay's civil war.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The French have indicated that unless there is agreement between France and the US on Ruhr coal and coke, the French Government will probably announce that the level-of-industry agreement is unsatisfactory (see item 1).

GREECE

The fall of the Greek Government will not have any immediate deleterious effect on the general situation in Greece and may even result in the formation of a more representative government if Tsaldaris and Liberal Party leaders can be made to abandon their present intransigent attitudes. If no satisfactory compromise is reached shortly, Army and civilian morale will suffer, and the Communists will be provided with an opportunity for executing a large-scale military and political offensive.

INDONESIA

Fighting has increased in intensity around the Dutch spearheads aimed at Jogjakarta. The Indonesian Republic's representative at the UN, former Premier Sjahrir, has declared that he will state again that Dutch troops must be withdrawn to the positions occupied at the time of the truce of 14 October 1946 before the Republic will feel safe to negotiate with a UN body.

KOREA

Foreign Minister Molotov has assented to Secretary Marshall's recent suggestion of a joint report. At the same time, however, Molotov's charge that US policy has hindered the Joint Commission's work indicates that future Soviet propaganda will attempt to cast the onus for the deadlock upon the US by continuing to stress "oppressive" US policies in South Korea.

CHINA

The Chinese Government has indicated that its policy on Japanese peace treaty questions will be directed toward securing Soviet participation in the peace negotiations, in order to prevent unilateral Soviet action on the Dairen issue (see item 4).

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GENERAL

1. French intransigent in London talks on Ruhr--The French Delegation to the current London Conference has informally told US Ambassador Douglas in London that, if there were no agreement between France and the US regarding Ruhr coal and coke, the French Government would probably state publicly that the level-of-industry agreement was unsatisfactory to France. In response, Douglas stated that French intransigence regarding the level-of-industry agreements might influence the US Congress to disapprove further aid for Western Europe. The French replied that the US can not refuse such aid because it is in the US interest to help in the economic recovery of Western Europe. Douglas believes that it should be stressed in Paris and elsewhere that French recalcitrance on German recovery may prejudice the Congress against any program for European recovery.
2. UK deadlines for troop withdrawals from Greece and Italy--Bevin has personally advised Secretary Marshall that "it would be impossible" to retain UK troops in Greece beyond this autumn or in Italy beyond the year's end. Bevin recommends that the US approve Greek requests to increase the size of the Greek Army and suggests that the US and UK Chiefs of Staff hold consultations on Greek military problems.
3. UK to sell six jet aircraft to the USSR--The UK Foreign Office has informed US Embassy London that the USSR is being allowed to purchase three Vampire and three Meteor jet aircraft of the latest types, but that no engines or aircraft on the secret list "have been or would be" made available to the USSR. The Foreign Office stated that a recent Soviet request to expedite delivery of the jet aircraft was refused and that no delivery will be accomplished for 15 months. (The US recently asked the UK to reconsider its intention to sell jet aircraft to the USSR.)
4. Chinese National Government policy on Japanese peace talks--In a letter to Secretary Marshall, handed to US Ambassador Stuart on 21 August, the Chinese Foreign Minister indicated that National

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Government policy on the Japanese peace treaty negotiations will be directed primarily toward securing Soviet participation in such negotiations. The Foreign Minister accordingly recommended that the Four Powers attempt to reach an agreement, at the time when the UN General Assembly meets, for a Japanese peace conference including the USSR.

The Foreign Minister personally told Stuart that the National Government was convinced that if a Japanese peace treaty is negotiated without Soviet participation, the USSR will take the occasion to entrench itself even deeper and refuse to cooperate with China on the Dairen issue. (The USSR has repeatedly claimed the right to extend to Dairen its military jurisdiction over the Port Arthur Naval Base Area until the Japanese peace treaty is signed.)

(CIG Comment: Fear of the consequences of the USSR's non-participation in the treaty negotiations reinforces the National Government conviction that some form of veto power must be permitted in Japanese peace negotiations.)

5. UK unable to lower tariff preferences--Under Secretary Clayton reports from Geneva that Sir Stafford Cripps has stated that it is "politically impossible" for the UK to take any substantial action in eliminating imperial tariff preferences. In view of this development, the Department of State is considering asking the President to send a message to Prime Minister Attlee in an effort to avert an open break in the trade agreement negotiations.

EUROPE

6. FRANCE: USSR may seek to aid Communists with wheat--US Embassy Paris believes that the USSR may possibly make a token delivery of "electoral wheat" in order to bolster the Communist position before the fall municipal elections.

(CIG Comment: Earlier Soviet wheat shipments, which were timed to arrive immediately before elections and were given wide publicity, have in the past aided the French Communists. Despite the smallness of these deliveries, as compared with US shipments, the propaganda value derived from them has been great.)

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7. AUSTRIA: Desires to re-open bilateral talks with USSR--The Department of State has informed the US Legation Vienna that the US does not object in principle to an Austrian approach to the USSR for a bilateral settlement of the German assets problem in Austria. The Department states, however, that in order for such a bilateral settlement to be acceptable to the US it must: (a) be publicly approved in Austria; (b) not impair Austrian sovereignty; (c) remove Soviet troops from Austria; and (d) preserve the property interests of US nationals.

(CIG Comment: It is unlikely that any agreement reached by the USSR and Austria on the assets question could meet these conditions. The USSR, however, would probably welcome the resumption of negotiations because such discussions would tend to weaken the position of the US, the UK, and France during the Austrian Treaty discussions at the November meeting of the CFM.)

8. BULGARIA: Discussion suddenly begun on ratification of treaty--US Political Mission Sofia reports that a discussion of ratification of the peace treaty has been placed on the 25 August agenda of the Grand National Assembly. This body was convened in "extraordinary session" on 24 August.

(CIG Comment: A sudden ratification of the peace treaty by Rumania on 23 August was the first indication of a change in Soviet attitude concerning Satellite peace treaties and probably presages similar action by Bulgaria in the next few days.)

9. GERMANY: USSR supports Communist Youth Group--Acting US Political Adviser Steere in Berlin reports that at a meeting of the Coordinating Committee of the Allied Control Council, the Soviet member introduced and supported an appeal of the Free German Youth (FDJ) to the ACC for German-wide recognition and the authority to organize.

(CIG Comment: The Free German Youth is probably the most dangerous Communist-front organization in Germany. Strongly anti-US, it has already partially penetrated the Western Zones. Its nation-wide recognition might readily lead to results diametrically opposed to US interests.)

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NEAR EAST-AFRICA

10. IRAN: Prospects for continued Iranian air transport--According to US Ambassador Allen in Tehran, there is little possibility that the Iranian Government will purchase the Transcontinental and Western Air (TWA) interest in Iranian Airways, as suggested by the US. Allen believes that Iranian Airways can probably continue operations if mechanics and spare parts are obtained, and that TWA may collect something on its disputed claim against Iranian Airways if it "pursues its interest."

Iran desires establishment of US-Iran air service--US Embassy Tehran further reports that an official of the Iranian Foreign Office has expressed his belief that Iran should not conclude a US-Iranian bilateral air agreement without a guarantee that a US carrier will promptly establish air service between the US and Iran.

(CIG Comment: The operation of Pan American Airways to Tehran has been delayed, despite the US national interest, by the failure of the Iranian Government to correct the poor condition of its Mehrabad airport.)

11. IRAQ: Prime Minister threatens to sever relations with US--According to US Embassy Baghdad, Prime Minister Jabur has informed the British Charge that if the UN decision on Palestine is unfavorable to the Arabs, Iraq will sever diplomatic and economic relations with the US and will "prevent any social contact between Americans and Iraqis."

FAR EAST

12. CHINA: Government subsidizes flights into Sinkiang--US Ambassador Stuart believes that the Chinese National Government "hopes to further diminish Soviet air transport monopoly in Sinkiang Province" by its subsidization of Central Air Transport Corporation (CATC) operations into Tihwa, the provincial capital. Stuart indicates that the Government also hopes that scheduled flights into Sinkiang will contribute to the maintenance of National Government authority.

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(CIG Comment: Soviet domination of the joint Chinese-Soviet Alma Ata airline has long concerned the Chinese National Government which has unsuccessfully proposed to Soviet officials that the airline be reorganized in order to effect increased Chinese participation. The subsidized CATC operations may indicate that the National Government now believes that further protests are futile.)

THE AMERICAS

13. GUATEMALA: Revolutionary plotting--The Department of State has instructed US Embassy Guatemala City to convey to the Guatemalan authorities a report of a projected revolutionary movement supposedly to take place there this week. (Ex-President Ponce of Guatemala has informed US Embassy Mexico City that he intends to launch a movement, including the airplane bombing of strategic points.)

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GENERAL

1. Italians propose Franco-Italian customs union--US Embassy
Paris reports that a program leading to a Franco-Italian customs union has been officially proposed to the French Government by the Italian Government. The Embassy was informed by the Italian Ambassador that the French Foreign Office has indicated its sympathy with the general concept of the proposal.

Ambassador Caffery believes that the Italian Government has not abandoned the view that a general customs union should evolve out of the Paris Conference, but that the Italians are pessimistic about the tangible results that can be achieved at this time and wish therefore to complete a bilateral economic union with the French.

2. Masaryk believes USSR prepared to follow isolationist policy--
According to US Charge Prague, Czechoslovak Foreign Minister Masaryk has expressed his increasing pessimism over the international situation. The Charge reports that Masaryk gained the impression in Moscow last month that the Soviet leaders are in an intransigently isolationist mood and may be prepared to sever remaining connections with the West. Masaryk reportedly does not believe that the USSR wants war or that Soviet isolationism would necessarily lead to war, but he fears a complete breakdown between East and West that will be "only a few degrees removed from open hostilities."

3. Wiley reports on Azores conference with Salazar--US Ambassador
Wiley in Lisbon reports concerning his recent conference with Premier Salazar regarding future US military air rights in the Azores that: (a) an agreement has been reached in broad principle and only the technical details remain to be worked out on a "factual basis" with the Foreign Minister on his return to Lisbon in September; (b) Salazar, though sympathetic to the US position, implied that no immediate settlement should be looked for; and (c) Salazar suggested that the US could disregard the expiration date of the current agreement and postpone the evacuation of US service forces in the Azores for several months if necessary.

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(CIG Comment: Despite Salazar's cordiality, the discussion of details of the US terms will probably continue to encounter determined opposition from dissident officials. The Portuguese are under no compulsion to expedite the final settlement.)

FAR EAST

4. INDONESIA: Further military action feared--The Netherlands Foreign Office has informed US Ambassador Baruch that it is cognizant of the grave consequences of further military operations (see Daily Summary of 22 August, item 8) but is encountering difficulty in restraining the Dutch Cabinet from taking precipitate action before the results of UN deliberations are known. Baruch reports a general feeling in The Hague that only immediate and complete military success will satisfy the Dutch people, unless the position of the UN improves from their point of view.
5. KOREA: Jacobs indicates USSR maneuver to blame US--US Political Adviser Jacobs reports that the charges by Chief Soviet Delegate Shtikov concerning the recent arrests by South Korean authorities are an attempt to provoke the US Commanding General in Korea to some action which will enable the USSR to blame the US for a break-up of the Joint Commission.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Douglas reports his apprehension that the Paris Conference is insufficiently concerned with the analysis of European production estimates and tends to lean too heavily on US assistance (see item 1).

GREECE

Changes in the Greek Government may be expected following the return of Foreign Minister Tsaldaris from the US, at which time Greek political leaders will precipitate a cabinet crisis (see item 6).

INDONESIA

The US has expressed to the Netherlands Government its strong hope that no further military action will be taken by the Dutch in Indonesia. However, elements in the Netherlands Government who advocate further operations may be strengthened if the Security Council fails to act favorably on the proposal for a three-member commission of investigation (see item 8).

KOREA

The US Delegation, in its unilateral report on the work of the Joint Commission, flatly states that it will be impossible to reach any agreement on Korean independence through the medium of the Joint Commission unless there is a real change in Soviet policy.

CHINA

No significant new development.

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GENERAL

1. Douglas' views on progress of Paris Economic Conference--US
Ambassador Douglas is apprehensive that: (a) the Paris conference on European economic recovery is not "critically analyzing the estimated production and requirements of participating countries"; and (b) a real danger exists that the final program may be "unrealistic as to production and inordinately large as to US assistance." Douglas believes that the US should make clear its willingness to share in any program which affects all countries alike, but that the US reserves the right of final decision.
2. Preliminary UK views on disposition of Cyrenaica--US Embassy
London has been told by a UK Foreign Office official that although the Foreign Office is undecided on the method of final disposition of Cyrenaica, it now tends to regard Cyrenaica, where vital British strategic interests are centered, as separate from the problem of Tripolitania and other Italian colonies. The official added that US views on the problem of securing the Cyrenaica base would be "of the greatest help to the Foreign Office"; (see Daily Summary of 14 August, item 3).
3. Vatican seeks easy removal of Franco--Acting US Representative
Parsons has been told by Tardini, Vatican Acting Secretary of State, that the Vatican policy is to open the way for Franco's departure from the Spanish Government and that the Vatican hopes to influence developments so that gradually the way will be made easy for him to do so.

EUROPE

4. UK: Bevin reverses intention to visit US--Foreign Minister Bevin
has told US Ambassador Douglas that his intention to visit the US at the time of the September UN General Assembly meeting has been "upset by developments." According to Douglas, this possibly indicates that Attlee will resign in favor of Bevin.

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25X1X 5. USSR: Production of naval equipment in Soviet Zone Germany--

[redacted] Soviet authorities have directed the Krupp-Gruson plant in Magdeburg to produce naval equipment and instruments for the USSR. [redacted] that an aircraft plant in Dessau has received an order for aircraft engines and instruments for Soviet use.

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(CIG Comment: It is well-established that a number of plants in the Soviet Zone Germany are producing military equipment for the USSR. Such production appears to be a clear violation of the level-of-industry plan agreed upon by the Allied Control Authority for Germany in March 1946.)

6. GREECE: Cabinet crisis approaching--US Ambassador MacVeagh reports that the three Centrist leaders in the Greek Cabinet will threaten to resign soon in an effort to oust Minister of Public Order Zervas, extreme Rightist, and to gain Liberal Party cooperation. MacVeagh believes that this plan will bring some improvement in the present Government. Both MacVeagh and AMAG Chief Griswold urge that the US use its prestige at this time by issuing a strong statement of US hopes for Greek unity.

(CIG Comment: A less intransigent attitude by Liberal Party Leader Sophoulis toward cooperating with the Government (see Daily Summary of 22 July, item 3) and a growing sentiment against Zervas for his recent public criticism of Greek Army tactics have recently been indicated. These developments increase the likelihood that the Centrist leaders will be successful. A new Government which included the Liberal Party and removed Zervas would receive greater confidence in and out of Greece, because it would have brought in the only parliamentary party not now represented in the Cabinet and would have removed the chief target of the Government's critics.)

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NEAR EAST-AFRICA

7. SYRIA: Arabian oil pipeline may seek new route--US Legation Damascus reports that Trans-Arabian Pipeline Company (TAPCO), a subsidiary of the Arabian-American Oil Company, has informed the Syrian Government that unless Syria signs the pipeline convention on or before 30 August, TAPCO will withdraw its request for pipeline transit privileges and will proceed immediately with construction along a route which does not cross any portion of Syrian territory.

FAR EAST

8. INDONESIA: US warns Dutch against renewed hostilities--The Department of State has instructed US Ambassador The Hague to convey immediately to the Netherlands Government a strong hope that it will not resort again to military action in Indonesia. The Ambassador is to warn that the ultimate results of further military action are likely to be detrimental to the best interests of the Netherlands and may entail serious consequences, perhaps including the proposal of sanctions in the Security Council.

US Embassy The Hague reports that the Netherlands Government is undecided on the resumption of military operations and indicates that the position of those in the Government who advocate military action will be strengthened if the Security Council fails to take positive action.

9. BURMA: Increasing political tension--US Consul General Packer Rangoon reports that the political situation in Burma is becoming increasingly unstable and tense, characterized by nightly shooting incidents. Packer believes that it is possible that both Burmese Communist factions are responsible for the disturbances, their motives being to discredit the AFPFL Government by demonstrating its weakness.

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10. CHINA: Reaction in Mukden to Wedemeyer Mission--US Consul General Mukden reports that the local Nationalist military and political clique, which had made elaborate preparations to monopolize the attention of the Wedemeyer Mission, was obviously disappointed at being unable to control the Mission's activities during Wedemeyer's recent visit to Mukden. Native Manchurians, however, were cheered by the hope that through Wedemeyer their views would be brought to the attention of Chiang Kai-shek for the first time.

THE AMERICAS

11. PARAGUAY: Government victory confirmed--US Charge Trueblood in Asuncion confirms press reports of the Paraguayan Government's decisive victory over the rebel forces. He expects early "peace, if not political tranquillity," with no further rebel threats unless organized from other countries.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The French are expected to agree to a revised level of industry for the US-UK Zones Germany provided that assurances are given regarding French security and the European allocation of Ruhr production.

GREECE

No significant new developments.

INDONESIA

Van Mook, Acting Governor General of the Netherlands East Indies, has warned that unless the Republic changes its attitude, Dutch military operations will be resumed. A Dutch offensive will have as its objective the occupation of the Republican capital of Jogjakarta in an attempt to bring about the downfall of the Republican Government.

KOREA

The Soviet Delegation has refused to issue a joint report and claims that it is still considering the last US proposal for breaking the deadlock. This maneuver is probably designed to embarrass the US in any attempt to carry the problem to a higher level in the face of continued Soviet delay.

CHINA

The Chinese National Government's reported declaration that Dairen has been closed to foreign shipping is a new legal thrust at the exclusive Soviet occupation of that area. The USSR, although believed willing to face a real test as to China's intention or ability to enforce the new ban, will probably offer legal counterclaims either that Dairen is a "free port," or that Soviet shipping is required for the USSR to carry out defense of the Port Arthur Naval Base Area.

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GENERAL

1. US officials recommend Ruhr talks following London Conference--
Under Secretary Clayton and US Ambassadors Caffery and Douglas report from Paris that they have assured Bidault that: (a) he is at liberty to present French views on the Ruhr at the London Tripartite Conference on the revised level of industry for the US-UK Zones Germany; and (b), at some more appropriate time, discussions leading to an understanding on the Ruhr will be held. Bidault stated that no French Government could agree to a revised level of industry for Germany without assurances of French security and access by Europe to Ruhr production. The US officials recommend that discussions of French views on the Ruhr be continued as soon as possible after the London Conference.
2. Soviet-Swedish relations deteriorating--US Military Attache Stockholm reports that the hitherto conciliatory attitude of the Swedish Government toward the USSR appears to have cooled. The MA believes that recent incidents, particularly the enforced recall of Soviet assistant military attaches after their discovery in prohibited areas, have accentuated this shift. The MA adds that a "bitter" press war is in progress against the USSR which the Swedish Government has not yet undertaken to curb.
3. Probable break-up of US-Cuban ITO negotiations--The US Delegation at the International Trade Conference reports from Geneva that: (a) the break-up of current US-Cuban tariff negotiations is a "strong possibility"; and (b) the only terms to which the Chilean negotiators are prepared to agree are "too thin to be worthwhile." The Delegation comments that if the US fails to work out accords with Cuba and Chile, it will have "agreements with only one Latin American country out of three," and that this might put the US in a difficult position vis-a-vis the Latin American bloc in the forthcoming inter-American conferences at Havana and Bogota.

(CIG Comment: The Cuban attitude at Geneva parallels its intransigence at the current Rio Conference.)

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4. French to support Bavaria on diplomatic relations with Vatican--

[redacted]
[redacted] the French Consul-General in Munich has stated that France would support, as a step toward Bavarian independence, a Bavarian request to OMGUS for the establishment of diplomatic relations with the Vatican.

(CIG Comment: The French might reasonably support such a request as a means of increasing their influence in western Germany. According to previous information, the French have discussed with rightist groups in Bavaria the formation of a federal Bavarian state.)

EUROPE

5. FRANCE: Ramadier's offer to resign rejected--US Embassy Paris reports that according to an informant who was present at a meeting between Premier Ramadier and the Resolutions Committee of the Socialist Party Congress, the Committee rejected Ramadier's offer to resign and assured him of its complete confidence (see Daily Summary of 20 August, item 5). In discussing the immediate effect upon the stability of the Government of the resolutions passed by the Socialist Party Congress, the informant stated that the resolutions should not be taken too seriously as they were a "demagogic endeavor to win over the working class."

6. ITALY: Probable Soviet reaction to discovery of oil in Po Valley--US Embassy Rome reports that the USSR may have learned that the latest geophysical findings indicate the presence of considerable petroleum in the Po Valley. [redacted] confidentially stated that the Po Valley may yield eleven million tons of petroleum annually.) The Embassy comments that because of the strategic political, economic, and military implications of this discovery, the USSR will certainly intensify its efforts to bring Italy into its sphere.

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7. NETHERLANDS: Cabinet crisis threatened over NEI policy--US Ambassador Baruch reports from The Hague: (a) that in anticipation of a Security Council decision adverse to the Dutch position on the Indonesian dispute, the Catholic Party is urging the Government to order a march on Jogjakarta, the Indonesian capital; (b) but that the Labor Party threatens to resign from the Government if military action is renewed in Java. Baruch believes the US should make urgent representations to restrain the Dutch from "this last desperate step which may come to almost immediate actuality."

FAR EAST

8. CHINA: Nationalist position in Manchuria--US Ambassador Stuart reports that it is the consensus of qualified observers in China that the "6th Communist offensive" in Manchuria will probably be launched in early September and that its most likely objectives will be: (a) interdiction of ports and rail support from China proper; (b) capture of Ssuningkai and the establishment of an east-west corridor between the Nationalist-held cities of Changchun and Mukden; and (c) capture of Fushun, key point in the defense of Mukden. Stuart adds that the Communists will be able to shut off reinforcements from north China by similarly-timed offensives in that area and thus render constricted Nationalist holdings in the Mukden area untenable.

THE AMERICAS

9. NICARAGUA: Stability of new regime--US Embassy Managua reports that the situation in Nicaragua is "potentially explosive" in view of: (a) the "shakiness" of the new Roman y Reyes regime; and (b) the certainty that the anti-Somoza leaders will refuse it their support. The Embassy adds that ex-President Somoza, according to a reliable informant, intends to take over the presidency himself if the new Government is not recognized.

(CIG Comment: Somoza, through his control of the National Guard, could easily take over the presidency if it suited his purposes.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

In order to avoid a breach-of-agreement charge by the US and the consequent freezing of the balance of the US loan, the UK has postponed for twenty-four hours unilateral action to end sterling convertibility (see item 1).

GREECE

Present Soviet propaganda suggests that the USSR may break diplomatic relations with the Greek Government (see item 7).

INDONESIA

The US offer of good offices has lapsed because of the Indonesian Republic's expressed preference for arbitration by a UN arbitration commission. Meanwhile, fighting in Java is reported to have increased in intensity, leading the Republic to call for quick action by the UN Security Council.

KOREA

The Soviet Delegation will probably attempt to prolong Joint Commission negotiations in order to avoid discussion of issues at a governmental level (see item 8).

CHINA

Present conditions in Manchuria cast doubt on recent rumors that the USSR is likely to attempt a "coup" in that area in the near future. The likelihood of such a Soviet move, however, would be increased if local Chinese Communist forces were eventually thrown on the defensive by US aid to China, by National Government reform of its Manchurian administration, and by active Nationalist military efforts to regain control of the area.

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GENERAL

1. UK postpones action to terminate sterling convertibility--The Department of State has informed Under Secretary Clayton in Geneva that the UK financial mission in Washington has been advised that the US will have to assert a breach of agreement and freeze the balance of the credit if the UK implements its intention to end convertibility unilaterally (see Daily Summary of 19 August, item 1). The UK has postponed its intended action for 24 hours, during which time alternative steps are being explored.
2. UNSCOP reported to favor partition for Palestine--US Embassy London has been informed by a high Jewish Agency official closely associated with the UN Special Committee on Palestine (UNSCOP) that a majority of UNSCOP now favor the partition of Palestine into an Arab and a Jewish state. The official added that UNSCOP would expect the states to have a customs union and a confederation to handle railways and communications.
(CIG Comment: Because partition has been the minimum demand of the Zionists, such a solution would probably be acceptable to them; however, it may be expected to provoke a strong Arab reaction.)
3. Pressure for economic talks at Rio Conference--The US Delegation at the Rio Conference reports that pressure is increasing for early inter-American consideration of economic problems and that Argentina is advocating a special economic conference to be held prior to the Ninth International Conference of American States at Bogota in January. The Delegation recommends, in view of the US wish to minimize economic discussions at Rio, that the US give its support to the proposal that the Inter-American Economic and Social Council be instructed to prepare an economic program for consideration at Bogota. (The Inter-American Economic and Social Council is a subsidiary of the Pan American Union. The Council meets in Washington pending action on its future by the Bogota Conference. The proposal referred to is sponsored by Mexico, Colombia, Brazil, Peru, and Chile.)

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4. US-Portuguese "Azores" conversations entering critical phase--
US Ambassador Wiley in Lisbon reports that conversations with Premier Salazar concerning US military rights in the Azores are "entering the critical phase." With UK support for US demands already assured, Wiley has asked the Department of State to suggest to the Brazilian Government that it instruct its Ambassador in Lisbon to support the US in the current negotiations. Wiley states that the Brazilian Ambassador is "entirely disposed to collaborate if he can receive the green light."

EUROPE

5. FRANCE: Bidault fears Ramadier Government may fall--US Ambassador Caffery has been told by Foreign Minister Bidault that as a result of the decisions of the Socialist Party Congress, Premier Ramadier's position has been seriously weakened and that the Government may fall within the next few days. Bidault added that he himself may be asked to form a new government.

(CIG Comment: During several previous governmental crises, Bidault has felt that he might be asked to form a new government. While Bidault, as leader of the center MRP party, may become premier upon the fall of Ramadier, it is not yet clear that the fall of the present Government is likely.)

6. GERMANY: Reported division of opinion in SMA--US Political Adviser Murphy believes that within the Soviet Military Administration (SMA) there may be a group favoring compromise with the West in an attempt to avoid a split of Germany or at least to maintain for tactical purposes the framework of quadripartite government. Murphy adds that a high Soviet military official has admitted to a US official that he is "terribly worried about current developments."

(CIG Comment: This division within the SMA, see Daily Summary of 18 July, item 4, is apparently a reflection of a divergence of opinion within the Kremlin on German policy as the November Conference of Foreign Ministers approaches.)

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7. USSR: Possible Soviet recognition of Communist government in Greece-- US Embassy Moscow believes that present Soviet propaganda and the recent USSR protests over alleged mistreatment of Soviet personnel in Greece suggest that the USSR and its Satellites may break relations with the Greek Government and recognize the Greek insurgents prior to the convening of the General Assembly. Such a move, the Embassy points out, would facilitate the supplying of overt aid to the Greek Communists and would present the General Assembly with a situation so confused as to make a clear-cut decision most difficult.

FAR EAST

8. KOREA: Soviet delaying tactics-- The US Delegation to the Joint Commission believes that present Soviet tactics are to present counter-proposals, thus keeping the Joint Commission alive until after the UN meeting in September. The delegation points out that this would keep the Korean problem out of the UN for another year.

(CIG Comment: The Soviet Delegation will now probably issue a unilateral report which will call US proposals "obstructionist," but will describe current Soviet dilatory tactics as actually conciliatory. Thus, any future US attempt to carry the issue to a higher level could be condemned as sabotage of the Joint Commission and of the Moscow Decision.)

THE AMERICAS

9. NICARAGUA: Recognition of new Roman y Reyes regime--The Department of State has informed Assistant Secretary Armour in Rio that Nicaragua's new Vice President, Arguello Vargas, will ask to be seated at the Rio Conference as the "representative of the newly elected Government" in Nicaragua, and that he will, if denied a seat in that capacity, ask to be seated as "the representative of Nicaragua" on credentials stating specifically that his acceptance does not imply recognition of the present Nicaraguan regime.

(CIG Comment: The Conference will probably seat Arguello Vargas and will probably choose to admit him without recognition of

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the present regime. However, early de facto recognition of the regime is likely to follow as a matter of course. If it does, General Somoza will probably make his long-deferred trip to the US, and his departure will force a political realignment in Nicaragua.)

10. PARAGUAY: Government successes in civil war--US Charge Asuncion reports, as of 18 August: (a) the "apparently assured" safety of Asuncion, with present acute food shortages expected to improve rapidly; (b) the recapture of the civil airport by the Government; and (c) the absence of rebel planes over the city through the last two days.

(CIG Comment: [REDACTED])

[REDACTED] confirms press reports that the remainder of the attacking rebel forces have split into several groups. If other recent press reports are also confirmed, the military phase of the civil war, except for possible continuing guerrilla action in localities remote from the capital, may be considered ended.)

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11. URUGUAY: Arms shipments to Paraguayan rebels--The Acting Minister of Foreign Affairs of Paraguay has informed the US Embassy in Asuncion and the diplomatic representatives of the American Republics that a plane that crashed near Montevideo on 15 August was carrying Uruguayan Government munitions to the Paraguayan rebels. In this connection, the US Military Attache Montevideo reports his conviction, based in part on a document discovered among the effects of the co-pilot of the plane in question, that high Uruguayan officials have been sponsoring arms shipments to the Paraguayan rebels.

12. ECUADOR: US comments on ammunition purchase--The Department of State has informed US Embassy Quito in connection with the report that Ecuador might purchase from Czechoslovakia large quantities of 7.92 calibre ammunition (see Daily Summary of 18 August, item 9), that: (a) the purchase would commit Ecuador to a rifle that is not standard US equipment; and (b) Ecuador is still eligible to receive a small amount of ammunition under the US interim arms program at a considerably lower price than that quoted by the Czechoslovakian firm.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

UK officials estimate that at the present rate of drain on British dollar resources the balance of the US loan will last only about two weeks; the Cabinet has therefore decided to take unilateral stop-gap action to forestall a break in sterling (see item 1).

GREECE

Intensified guerrilla activity will follow the recent announcement by General Markos of the establishment of a "free" Greek government. The guerrillas will attempt to extend their control in northern Greece before the Greek Army can make effective use of the equipment supplied by AMAG.

INDONESIA

Despite pressure from liberal elements in the Netherlands to curtail military action, Dutch forces may soon reopen "police operations," possibly with the occupation of the Republican capital of Jogjakarta as their objective.

KOREA

No significant new development.

CHINA

A plan currently proposed by the UNRRA office in China, which would withhold UNRRA supplies from military areas under Nationalist control (as well as from Chinese Communist areas), would probably intensify Chinese reaction against any foreign demands for the "privilege of interfering in Chinese affairs" as a condition for extending aid to China.

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GENERAL

1. UK to act unilaterally to protect sterling--Bevin has informed US Ambassador Douglas that, because the run on UK dollar resources has accelerated so greatly that the remainder of the US loan may be exhausted in two weeks, the Government has decided to take immediate action unilaterally to protect sterling. Bevin stated that while he would have opposed such a step if the issue were purely monetary, he is convinced that a break in sterling would: (a) "impair if not destroy" all US and UK efforts in the political field over the past two years; (b) lead to increased aggressive action by the USSR; and (c) have a "profound adverse effect" politically and economically in France and Italy.

Bevin emphasized that this action is to be taken as a stop-gap to maintain the status quo while the US and the UK are reviewing the situation and is not to be construed as a repudiation of the financial agreement. In this connection, Douglas feels confident that Bevin was expressing the UK Government's sincere convictions.

2. US representatives in Moscow discount overt Soviet move in Iran--The US Military Attache Moscow reports his belief that: (a) the USSR does not intend to make an overt hostile move against Iran; and (b) any changes which may have been made in Soviet troop dispositions in the area were probably for the purpose of intimidating the Iranian Government. US Ambassador Smith reports that there is neither anything definite to substantiate recent rumors of increased Soviet strength on the Iranian border nor any concrete indication that the USSR is preparing to occupy Iranian territory.

EUROPE

3. USSR: Note rejects US view on former Axis assets--US Embassy Moscow has received a note from the USSR contending that Soviet acquisition of former Axis assets in Hungary, Bulgaria, Rumania, and Finland is final. The note rejects the US contention that transfers of such assets thus far have been only provisional, pending the implementation of peace treaties.

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Smith expects delay of ratification--US Ambassador Smith in Moscow believes that the Soviet delay in ratifying the Italian and Satellite peace treaties reflects a Kremlin estimate that ratification would not be advantageous to the USSR at present. Smith points out that through delay the USSR can: (a) avoid the termination of armistice regimes, thus allowing more time for the consolidation of Soviet control; (b) disturb the precarious political balance in Italy; and (c) maintain troops in Bulgaria for continuation of the "war of nerves" on Greece and Turkey.

4. HUNGARY: Secret treaty for retention of Soviet troops--The US Military Representative Budapest has learned from "a usually reliable source" that the Chief of the Military Committee of the Hungarian Communist Party recently stated that a mutual assistance treaty between the USSR and Hungary is being prepared which will include provisions for the retention of Soviet troops in Hungary.

(CIG Comment: Judging by previous reports, such an agreement is quite possible. It is unlikely, however, that the USSR would make such a treaty with Hungary without making similar pacts with Bulgaria and Rumania.)

5. BULGARIA: Mission suggests direct appeal for Petkov--The US Mission in Sofia states its view that a direct appeal by the US for clemency for Opposition Leader Petkov should be made to the Bulgarian Government in addition to the representations already made to the Allied Control Council.

NEAR EAST-AFRICA

6. TURKEY: Government exploring possibility of reducing armed forces--US Ambassador Wilson reports that the Turkish Government, in attempting to decide whether a reduction in the Turkish armed forces should be made, wants to be informed of US views on the international situation. While Wilson believes that Turkish forces should not be reduced for at least a year, he suggests that the Government be given

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a frank estimate of the international situation, on the basis of which it can make its own decision. Wilson feels that Turkey would then maintain the armed forces at present strength.

THE AMERICAS

7. URUGUAY: US cattle shipment infected with hoof-and-mouth--US Charge Montevideo has received a note from the Uruguayan Government stating that in a shipment of dairy cows arriving direct from New Orleans on 17 June: (a) one animal was infected with hoof-and-mouth disease on arrival; and (b) by 12 July, all but two of twenty-nine animals had developed the disease.

(CIG Comment: The latest US epidemic of the highly contagious hoof-and-mouth disease occurred in 1929 and was stamped out by slaughtering all cattle in the infected areas. The US is now cooperating with the Mexican Government in a similar slaughter campaign in that country. [redacted] several months ago referred to a plot looking to a deliberate attempt to cause the disease to spread to the US.)

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CRITICAL SITUATIONS

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EUROPEAN RECOVERY

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French officials favor the establishment of a customs union through the European economic recovery program (see item 1).

GREECE

The "free" Greek government proclaimed by General Markos (Greek guerrilla leader) is merely provisional and military. Markos' proclamation will probably be followed by the announcement of a more permanent political government which will be recognized by the Satellites, if not by the USSR. Meanwhile, Satellite representatives are withdrawing from Athens and leaving Greece in virtual diplomatic isolation from its northern neighbors.

INDONESIA

The Netherlands Reconstruction Minister has been sent to Batavia with instructions to Van Mook that Dutch forces must cease advances and take only protective measures.

KOREA

The Soviet delegation on the Joint Commission continues to insist that it has no instructions to meet with US delegates for the purpose of drawing up a statement on the present deadlock in the negotiations, as proposed by Secretary Marshall's recent letter to Molotov.

CHINA

The Central Government's new foreign exchange plan, which recognizes the depreciated open market rate for all exchange transactions except those covering essential imports, will not succeed in materially reducing the drain on Government foreign exchange and gold resources unless the plan is capably administered and is accompanied by a revival of public confidence in the Government and its currency.

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GENERAL

1. French favor customs union of Western Europe--Under Secretary Clayton reports that French officials strongly favor provisions within the European economic recovery program for: (a) financial and monetary reform; and (b) the eventual establishment of a customs union. Clayton adds, however, that there is general agreement that the UK empire-preference system is a barrier to taking even preliminary steps toward a customs union.
2. UK will consult US before making troop withdrawals--US Ambassador Douglas reports that the UK Foreign Office has assured him that the UK will undertake no troop withdrawals from Italy or Greece without full, prior consultation with the US.
3. Strong Soviet policy in Iran expected--US Ambassador Smith in Moscow reports his conviction that the USSR is in a position to follow a strong policy in Iran. He believes that the recent demands made by the Soviet Ambassador on Prime Minister Qavam (see Daily Summary of 15 August, item 5) create a situation which the USSR may exploit either to gain an oil concession in northern Iran or to weaken seriously the British oil position in southern Iran.

(CIG Comment: The USSR will undoubtedly resort to every means of intimidation short of military force in attempting to procure a concession. If, as seems certain, the Majlis fails to ratify the original agreement or to grant a concession comparable to that of the UK, the USSR will intensify its efforts to secure a government in Iran more amenable to its objectives.)

EUROPE

4. AUSTRIA: Dodge urges continuance of ATC talks--US Representative Dodge at the Austrian Treaty Commission (ATC) urges that ATC talks be continued during his absence in Washington for consultation (see Daily Summary of 9 August, item 2). Dodge believes that continuance of the discussions is necessary to: (a) establish the record of untenable Soviet positions; (b) provide better factual basis for the US position; and (c) facilitate agreement in the ATC among the US, UK, and France.

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5. **NETHERLANDS: Labor Party split averted--US Embassy The Hague** reports that according to the Chairman of the Labor Party the threatened split within the Party (see Daily Summary of 15 August, item 3) has been averted by the recognition that: (a) initiative in the Indonesian dispute is no longer in Dutch hands; and (b) no further military action would be tolerated by Labor members of the Cabinet.
6. **FRANCE: Reduction of bread ration imminent--US Embassy Paris** reports that the French Government is considering the reduction of the bread ration to the lowest ration since the war. The Embassy, believing that such a reduction would be intolerable during the fall and winter when other foods are scarce, urges that an effort be made to expedite grain shipments in order to: (a) maintain the present ration; (b) facilitate domestic grain collections; and (c) prevent further unbalance in the general economic situation.
7. **RUMANIA: Announcement of monetary stabilization creates panic--US Mission Bucharest** states that the recent publication of the Government monetary stabilization decree has resulted in panic and almost complete commercial paralysis. The Mission 25X1
 the Government intends to use the stabilization program as a means of expropriating certain business and industrial enterprises. 25X1

NEAR EAST-AFRICA

8. **PALESTINE: Anti-Jewish riots cause alarm--US Consul General Jerusalem** reports as "highly disturbing" the continuance for six successive days of Arab anti-Jewish riots in Palestine. He adds that the riots are similar in pattern to events which in the past have led to widespread trouble in Palestine.

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THE AMERICAS

9. **ECUADOR: Czechoslovakia offers ammunition to Ecuador--**The Chief of the US Army Mission in Ecuador has told US Ambassador Simmons that: (a) Czechoslovak salesmen have offered 30 million 7.92 cartridges to the Ecuadoran Government and have promised delivery of 5 million rounds within 30 days; (b) only an immediate US offer of comparable materiel at "substantially cheaper prices" can prevent the purchase by Ecuador; and (c) the Minister of Defense favors the buying of US ammunition and promises to delay the contract pending new information on US prices. The Chief of the US Mission believes that the Czechoslovak offer is bona fide.
10. **PERU: US-manufactured planes lacking spare parts--**The Commanding General Caribbean Air Command reports that many Peruvian Air Force planes of US manufacture are now grounded for lack of spare parts. He comments that unless a solution is found to this general problem the goodwill initially created by making US surplus military equipment available to Latin American countries will be destroyed.

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GENERAL

1. Australian embargo on Dutch trade engineered by Communists--US Naval Attache Melbourne reports that Communists have maneuvered the Australian Council of Trade Unions into supporting a blanket embargo on Dutch trade. The NA believes that the Australian Prime Minister has disregarded fundamental principles by merely requesting the Unions to modify the ban (permitting trade with the Netherlands but not with the NEI) instead of questioning the right of private persons to direct Australian policy. The NA declares that Australia, having offered to mediate in the Indonesian dispute, has now intervened in favor of the Indonesian Republic.
2. US still favors settlement of Anglo-Egyptian dispute by renegotiation--The Department of State has informed the US delegation to the UN of its view that the Anglo-Egyptian dispute can best be resolved by an SC recommendation that the two disputants renegotiate and report later to the SC.
3. UNSCOP reportedly favors an independent Palestine--The British Foreign Office has informed US Embassy London that: (a) the UN Special Committee on Palestine (UNSCOP) apparently favors the establishment of an independent Palestine, although there is no indication whether the delegates are considering one or two Palestine states; and (b) it is increasingly apparent that the Grand Mufti is determined to test his strength by promoting a campaign of violence by the Arabs in Palestine, possibly before the end of the year.

EUROPE

4. ITALY: Dunn urges increased aid--US Ambassador Dunn urges a substantial increase in food shipments to Italy, preferably of wheat, to arrive as soon as possible and to reach a peak in March. Dunn doubts whether the democratic leaders can defeat the Communists at the April 1948 national elections if Italian expectations of extensive US aid have not been fulfilled before that time.

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THE AMERICAS

5. CUBA: US Navy Reconnaissance locates military stores--According to the US Naval Base at Guantanamo, Cuba, aerial photographs reveal about 400 men, military stores, and camouflaged buildings on a small island off the northern coast of Cuba. The report also states that an LCI and three other small vessels were nearby. (The US Naval Attache Havana had reported previously that Dominican revolutionists were on this island.)
6. PARAGUAY: Relief of Capital confirmed--The US Military Attache Asuncion has reported that on 14 August loyal troops reached the city from the north and "relieved the critical situation."

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US officials believe that new proposals to France will clear the way for the economic revival of western Germany (see item 1). The Department of State believes that the nations of Western Europe must adjust themselves to basic changes in their international position and must stress self-aid in any economy program to be acceptable to the US.

GREECE

A public announcement of the establishment of a "free" Greek government, accompanied by intensified guerrilla activity, is believed to be foreshadowed by continuing rumors of the formation of such a government, by Gromyko's recent outburst in the Security Council, and by veiled Soviet threats to sever diplomatic relations with Greece.

INDONESIA

As a means of settling the Indonesian question, the Netherlands Government now favors arbitration by three representatives, one each to be appointed by the Republic and the Dutch, and a third to be chosen by both sides. Firm in its opposition to arbitration by a single third party, the Republican Government has broadcast an appeal to the Security Council to conduct a plebiscite on the future of Indonesia.

KOREA

No significant new developments.

CHINA

The Chinese, unable to fill their immediate needs for aircraft ammunition by purchases from the US Government, are now attempting to obtain such ammunition from private manufacturers in the US (see item 6).

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GENERAL

1. US officials' recommendation for agreement with France on Ruhr--
Under Secretary Clayton and US Ambassadors Douglas and Caffery recommend, on the basis of French suggestions, that the US inform the French Government of its willingness to join with France and the UK in establishing by the German peace settlement an international board which would allocate Ruhr coal, coke, and steel and limit German consumption to peaceful uses. The US officials recommend further that this board be composed of representatives from the US, UK, France, Benelux, and Germany. The officials add that in return the French will be expected to: (a) raise no objection to the revised level of industry agreement; (b) agree to its early publication; and (c) take steps not later than the close of the November meeting of the CFM to merge the French Zone with the US-UK Zones Germany. Clayton, Douglas, and Caffery believe that if action can be taken along these lines, no important problems will arise with the French on the level of industry agreement.
2. Complications in US-Portuguese air negotiations--US Ambassador Wiley in Lisbon reports his belief that the Portuguese Foreign Minister has been unable to carry out his intentions to facilitate the agreement with the US for air rights in the Azores. Wiley points out that, although the Foreign Minister once asserted that the Portuguese would henceforth be politically oriented toward the US and implied that there would be a complete break with the "Portuguese historic affiliation" (presumably the UK alliance), he has recently absented himself from discussions. Wiley believes that the ex-Secretary General of the Foreign Ministry, Mathias, and possibly the Minister of War, who advises Premier Salazar on aviation matters, were able to get Salazar's approval of the "oral formula" which contained Portuguese proposals unacceptable to the US.

(CIG Comment: These developments indicate a continuation of the tug-of-war between two opposing Portuguese factions. Salazar has probably not yet made up his mind on the ultimate Portuguese attitude. Unless definite progress in the Azores negotiations is achieved almost immediately, it will be necessary to discontinue US military air operations through the Azores on the existing basis.)

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EUROPE

3. **NETHERLANDS:** Split within Labor Party may be imminent--US Embassy The Hague reports that tension within the Dutch Labor Party may lead to an open split over the Government's "practical abrogation" of the Linggadjati Agreement with the Indonesian Republic. The Embassy adds that repercussions may affect the make-up of the present Government.
4. **HUNGARY:** Recommend US-UK action before elections--US Minister Chapin in Budapest (in agreement with his British colleague) recommends that joint US-UK action be taken before 31 August in order to provide a basis for non-recognition of the Hungarian national elections. Chapin suggests: (a) immediate protests to Hungary concerning reported widespread abuses of disenfranchisement procedures, estimated to affect at least 20% of electorate (see Daily Summary of 11 August, item 2); and (b) joint proposals to the Allied Control Commission for postponement of elections.

NEAR EAST-AFRICA

5. **IRAN:** USSR adamant regarding Soviet-Iranian oil agreement--Prime Minister Qavam has informed US Ambassador Allen that Soviet Ambassador Sadchikoff has formally insisted that the original proposal for the formation of a joint Soviet-Iranian oil company be presented to the Majlis promptly for ratification. Qavam replied to Sadchikoff that the Majlis would unquestionably reject the original terms and suggested that the USSR enter into further negotiations. Sadchikoff rejected this suggestion and stated that if Iran refuses to ratify the original agreement, his Government will immediately demand a northern concession similar to that held by the British in the south. (The Anglo-Iranian Oil Company is an all-British company in which the British Government owns a controlling interest.) Allen expresses his belief that the USSR realizes it will be unable to obtain any kind of Iranian oil concession and is consequently maneuvering to save face and to make more difficult the British oil position in Iran.

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FAR EAST

6. **CHINA: US position on Chiang's request for aircraft ammunition--**
With reference to Chiang Kai-shek's inquiries about the purchase of aircraft ammunition from the US (see Daily Summary of 2 August, item 7), the Department of State has authorized Ambassador Stuart to state that: (a) no facilities exist for a temporary loan from US Army stocks; and (b) the Army at present has no surplus stocks available. The Department, noting that the Chinese are now negotiating with private ammunition dealers in the US, authorizes Stuart to inform the Chinese Government that it is at liberty to procure ammunition through such channels.

7. **PHILIPPINES: Transfer of war materiel to Philippine Government--**
The Department of State, indicating concern over requests for transfer of large amounts of ammunition, bombs, and military stores to the Philippine Government, has instructed US Embassy Manila to determine specifically the use to be made of the materiel. The Department calls attention to the possibility that the falling of war materiel into undesirable hands in the Philippines and elsewhere will embarrass the US.

(CIG Comment: The Philippines have been, since the end of the war, a center for illegal arms traffic which has been effective in sustaining armed conflicts in southeast Asia.)

THE AMERICAS

8. **CHILE: Impending crisis in Chile--**US Ambassador Bowers reports that Chilean armed forces are trying to operate the country's postal and telegraph services in the face of a Communist-led strike and that a presidential spokesman has asked the striking employees to return to their jobs because a "coup d'etat is being prepared that will endanger the country's democratic regime." Bowers describes the situation as chaotic.

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9. **PARAGUAY: Developments in Civil War--US Charge Trueblood** reports that a Rebel break-through into Asuncion in the early morning of 14 August was checked by the "opportune arrival of some 1,000 mounted troops in battle trim belonging to Government's First Corps." (The First Corps is the Government force that occupied Concepcion in northern Paraguay. Troops of this corps are reported to have been marching to the relief of Asuncion.) However, the US Military Attache, reporting the same day, does not mention the "1,000 mounted troops" and states that the actual strength of the expected Government relief from the north is unknown.

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CRITICAL SITUATIONS

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EUROPEAN RECOVERY

Bidault has retreated from his former position concerning international management of the Ruhr; US officials recommend that the proposed tripartite talks be suspended until some agreement has been reached with Bidault (see item 1).

GREECE

No significant new developments.

INDONESIA

The Indonesian Republic will protest to the Security Council against the admission of delegations from the Dutch-sponsored states of West Borneo and East Indonesia to Council hearings on the Dutch-Indonesian dispute. US Consul General Batavia warns of the difficulties of securing Republic implementation of any decisions produced through US good offices (see item 7).

KOREA

No significant new developments.

CHINA

No significant new developments

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GENERAL

1. Bidault raises new difficulties on Ruhr settlement--Under Secretary Clayton and US Ambassadors Caffery and Douglas report from Paris that French Foreign Minister Bidault has retreated from his former position on the Ruhr question and has insisted, in an informal conversation, that he does not favor international control over Ruhr management (see Daily Summary of 8 August, item 1). Bidault emphasized that French acceptance of the new level of industry agreement is contingent upon: (a) guarantees that the Ruhr industrial capacity will never again be used for military purposes against France; and (b) some arrangement assuring that Western Europe's access to Ruhr production will not depend upon the will of Germany.

The US officials fear that unless there is agreement with Bidault prior to the forthcoming tripartite talks, French opposition to the level of industry agreement will be so violent as to involve the possible fall of the present French Government and the loss of French support and leadership in the European economic program. The US officials advise therefore that no date be fixed at present for the London conference.

2. US reply to Soviet counter proposals regarding Japanese Peace Treaty--The Department of State, in a reply to the Soviet aide-memoire of 22 July regarding the forthcoming Japanese Peace Treaty, has maintained that: (a) the agreements reached at Cairo, Yalta, or Potsdam do not invest the CFM with any authority concerning the Treaty; (b) the establishment by the Moscow Conference of the Far Eastern Commission recognized the primary interest of the eleven powers in the Commission in all Japanese post-surrender policies; (c) since only an exchange of views on such a conference was desired, any interpretation of unilateral action by the US is erroneous; and (d) the proposed conference will decide its own procedure. The Department's reply expresses the hope that, because the other nine interested governments have accepted these proposals, the USSR will also accept.

The Department has indicated to its embassies that if the USSR does not reply within two weeks, the US will consider dispatching formal invitations for a Japanese Treaty Conference to the other nine powers, such a conference to be held in Washington on 8 September.

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3. UK desires strategic bases in Cyrenaica--US Embassy London reports that the UK Foreign Office and the War Office are seeking some means of obtaining strategic bases in the Cyrenaica area. The Embassy adds that in the opinion of the Foreign Office no satisfactory solution to the Italian colonies problem will be found by the CFM and that the problem will eventually have to be placed before the UN. (The Daily Summary of 5 July, item 5, reported the insistence of the UK General Staff that Cyrenaica bases were absolutely essential to their strategy, owing to forthcoming troop withdrawals from Egypt and very possibly from Palestine.)

4. Debt default holds up resumption UK-Soviet trade talks--The UK Foreign Office has advised US Embassy London that the USSR has been firmly informed that trade talks cannot be resumed until the Soviet debt default of 1 August is cleared up. The British are reported to feel increasingly that the USSR will not have grain available for export.

(CIG Comment: This information differs from an Embassy report of 11 August indicating a British move to reopen trade negotiations. The reported British initiative appears actually to have consisted only of asking the Soviets to pay the defaulted sum, together with a proposed commitment that the terms of any new payments agreement would be retroactive to the date of collapse of the last Moscow talks.)

5. US objections to Azores proposals--The State Department has pointed out to US Ambassador Wiley in Lisbon that the text of a recent Portuguese memorandum regarding US air rights in the Azores (see Daily Summary of 28 July, item 2) would exclude US Navy transport aircraft and might exclude all combat aircraft. The Department proposes that Wiley inform Portuguese officials, if they cite the US-Icelandic agreement in arguing against the use of military personnel, that the use of civil personnel in Iceland has proved most unsatisfactory and that the US hopes for a much more satisfactory arrangement with Portugal. The Department suggests that Wiley approach Premier Salazar directly if necessary.

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EUROPE

6. USSR: Further delay in ratification of peace treaties--The Soviet Government has informed US Ambassador Smith of its view that the US, the UK, the USSR, and France cannot deposit ratifications of the Italian and Balkan peace treaties until the treaties have been ratified by the ex-enemy states. Smith points out that as recently as January the USSR supported an opposite view. The Ambassador believes that the USSR is attempting to delay ratification because it wishes to maintain its armistice regime in Hungary until the scheduled elections occur in that country. (See Weekly Summary of 25 July, page 1, for additional considerations prompting Soviet obstruction.)

FAR EAST

7. NEI: Foote warns acceptance of US offices unlikely--US Consul General Foote in Batavia believes that the Indonesian Republic will not accept the US offer of good offices unless it is endorsed by the Security Council because it wishes arbitration by representatives of countries selected by the Republic. Foote warns that no decisions produced through US good offices could be implemented by the Republican Cabinet without the agreement of Republican military leaders.

THE AMERICAS

8. DOMINICAN REPUBLIC: Government rejects Cuban protest--The Cuban Charge in Ciudad Trujillo has informed US Ambassador Butler that the Dominican Government has rejected a Cuban protest regarding alleged Dominican press attacks on President Grau of Cuba. The Charge believes the Dominican Government is trying to force a break in relations with the Cuban Government, but he indicates that the Cuban Government does not intend to permit such a break.

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9. PANAMA: Defense sites negotiations--US Ambassador Hines, in reply to a request for comments on a War Department draft for a new US-Panama defense sites agreement, observes that the draft would entail an "awkward" withdrawal from the US commitment to "joint authority in some form." Hines believes that such a withdrawal would "inevitably lead to public charges of bad faith" and that delay "can only prejudice our position."

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US Ambassador Douglas is pessimistic concerning the effectiveness of the measures taken by the UK to remedy the present economic crisis (see item 2).

GREECE

AMAG Chief Griswold reiterates his belief that no increase in the permanent size of the Greek Army should be permitted (see item 3).

INDONESIA

Despite vigorous protests from the Netherlands Ambassador and the British, French, and Belgian delegates, representatives of the Indonesian Republic have been permitted to participate in Security Council discussions. As a counter-move, Netherlands Ambassador van Kleffens has proposed that the same privilege be given to delegations from the Dutch-sponsored states of East Indonesia and West Borneo.

KOREA

In an effort to prolong Joint Commission negotiations until Foreign Minister Molotov replies to Secretary Marshall's letter, the US delegation has proposed that oral consultations be abandoned and that plans for a provisional government be evolved from the questionnaires filed by applicants for oral consultation.

CHINA

The US note protesting Soviet delay in implementing the Sino-Soviet Treaty of 14 August 1945 will strengthen the Chinese National Government in its negotiations with the USSR on the Dairen issue (see item 7).

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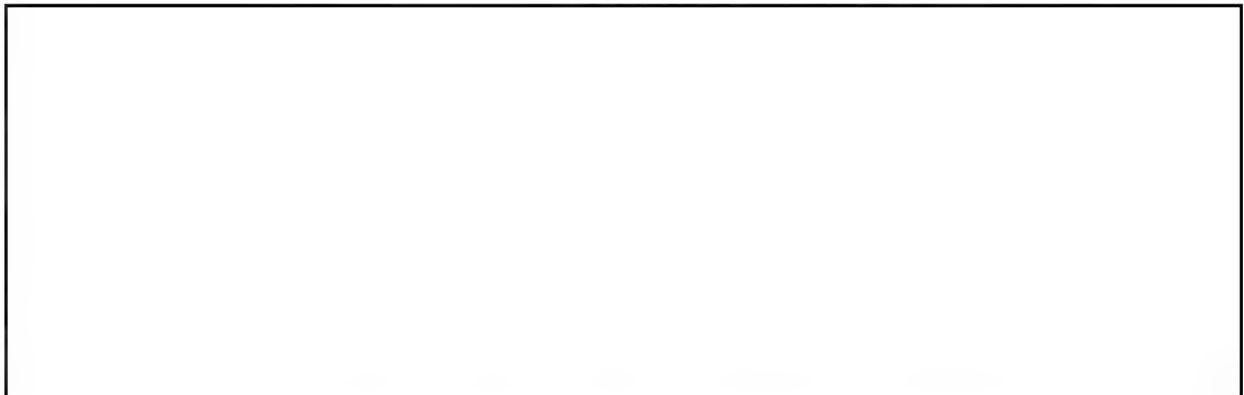
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GENERAL

1. UK seeks common front with US on Egyptian case--A high UK Foreign Office official has told US Embassy London that Bevin has been keenly disappointed by the lack of clear-cut US support of the UK in the Egyptian case now before the UN. The Foreign Office fears that failure of the US and UK to present a common front on the principle of the sanctity of treaties may result in adverse long-range effects in the Near East.

EUROPE



MA's views on effect of troop reductions overseas--US Military Attache London reports his conviction that any appreciable reduction of UK military forces overseas will require a "softer" defense policy and foreign policy, despite Attlee's official statement that the planned reductions (some 40% by 1 April 1948) imply no policy changes. The MA adds that substantial withdrawals of troops, unless commitments are assumed by the US, would tend to create partial vacuums offering opportunities for the USSR to gain the initiative.

3. GREECE: AMAG opposes increasing size of Greek Army--AMAG Chief Griswold reiterates his belief that it is not necessary to increase the permanent size of the Greek Army because: (a) increases made now would not improve the fighting strength of the

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Army for at least three months; and (b) the General Staff is not making full use of the present strength of the Army and is too much concerned with political considerations. The military section of AMAG believes that "present Army strength properly and energetically utilized can decisively defeat the present strength of the bandits."

4. HUNGARY: Suggests bringing Hungarian case before the UN-- US Minister Chapin in Budapest reports that, in the opinion of Undersecretary of State Pongracz (a member of the Conservative Smallholders Party), the forthcoming national elections of 31 August represent "the last opportunity for the US to halt the Soviet-Communist drive in Hungary." Pongracz declared that probably the only effective measure for the US to take in the situation would be to bring the Hungarian case before the UN.

NEAR EAST-AFRICA

5. IRAN: British propose Iranian air merger--According to US Ambassador Allen in Tehran, British Overseas Airways Corporation (BOAC) has proposed that Iranian Airways (Iranair) be merged with a hitherto inactive Iranian airline, and that BOAC operate the consolidated concern with British aircraft under a management contract.

(CIG Comment: US interests in Iranian Airways, which have consisted of 10% ownership and a management contract by TWA, would be eliminated by such an agreement.)

FAR EAST

6. FRENCH INDOCHINA: Meaning of Bollaert's departure for Paris-- US Consul O'Sullivan in Hanoi reports his belief that French High Commissioner Bollaert apparently had planned, before his sudden departure for Paris, to present terms to the Vietnam Government, the almost certain rejection of which would justify a

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conclusive military campaign during the coming dry season. Consul O'Sullivan feels that Bollaert desires to defend this plan personally before officials in Paris who are divided on French policy in Indochina.

7. CHINA: US protests Soviet delay on Dairen--The State Department has instructed US Embassy Moscow to transmit to the Soviet Foreign Office a note again calling attention to the delay in opening Dairen to international commerce as a free port in accordance with terms of the Soviet-Sino Treaty of 14 August 1945. The Department's note reminds the USSR that, although two years have passed since the Japanese surrender, representatives of US firms have not yet been allowed to visit their properties in Dairen. The note also states that until the USSR and China reach agreement on Dairen, the US holds the USSR responsible for treatment accorded to US interests there and requests information on the steps which the Soviet Government will take to assure equitable treatment to US interests.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Bevin has agreed to tripartite discussions of the German coal and steel problems on the condition that there be no implications that the French will have power of veto.

GREECE

No significant new developments.

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INDONESIA

The Dutch have proposed to set up immediately an interim federal government composed of Dutch-sponsored Indies states and have invited the Indonesian Republic's cooperation. This government would administer areas occupied by the Dutch in recent weeks in addition to the Dutch-sponsored states.

KOREA

Secretary Marshall has addressed a personal letter to Molotov expressing concern over the stalemate in the Joint Commission. The letter suggests that by 21 August a report be made by the Commission on the present status of its deliberations.

CHINA

Even if the National Government's military power in north China is strengthened, the military advantage in Manchuria will probably remain with the Chinese Communists unless the National Government carries out major reforms and receives substantial military assistance from abroad.

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EUROPE

1. ITALY: Seeks equality with France in aid program--US Embassy
Rome reports that the Italian Foreign Office has instructed its delegates at the Paris Conference to insist upon the principle of equality between France and Italy in the aid that may be sought under the European recovery program. The Embassy believes that these instructions may have been elicited by representations made in Rome recently by northern Italian industrialists, supported by the General Confederation of Labor.

(CIG Comment: The support of the Italian industrialists by the Communist-led General Confederation of Labor probably indicates that the Communists are maneuvering in this way to create disharmony within the Paris Conference.)

FAR EAST

2. FRENCH INDOCHINA: Postponement of High Commissioner's speech--
US Consulate General Saigon reports the postponement of the presentation of new French terms to Vietnam by M. Bollaert, French High Commissioner for Indochina. US Consul Hanoi has been informed by the International Red Cross there that M. Bollaert proposed returning to Paris on 13 August, apparently to confer on French policy. US Consul Saigon believes that contributing factors to French indecision may be the Indonesian situation and Leon Blum's recent statement on Indochina.

(CIG Comment: Blum, who opposes the current French policy in Indochina, expressed in a recent editorial his belief that negotiations must be undertaken with authentic representatives of the Vietnam people and that Ho Chi Minh remains qualified to speak for the Vietnamese.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Bidault has accepted the opportunity to confer with US and UK officials on the level of industry in the US-UK Zones Germany.

GREECE

Recent reports indicate increased political activity in the Balkan Satellite States directed toward the formation and support of an "independent" Communist Greek government.

INDONESIA

The Netherlands Government will not consent to the appearance of Indonesian Republican representatives before the Security Council (see item 3).

KOREA

No significant new developments.

CHINA

Chinese Nationalist assertions--that the real strength of the Chinese Communist Party and its most effective pro-Soviet leaders are in Manchuria--appear to be part of the current Nationalist effort to develop political and military objectives in Manchuria which would warrant US support.

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GENERAL

1. No immediate UK troop withdrawals from Greece or Italy--Bevin has informed US Ambassador Douglas that the UK Government is contemplating no troop withdrawals from either Greece or Italy "in the immediate future," but that he expects pressure from the left wing of the Labor Party favoring such withdrawals.

EUROPE

2. HUNGARY: 900,000 voters disenfranchised before elections--US Minister Chapin in Budapest states that a major scandal has developed over the disenfranchisement of an estimated 900,000 voters. These persons are "disqualified" from voting in the 31 August national elections by direction of the Communist Minister of Interior on the grounds that they are Fascists.

FAR EAST

3. NEI: Dutch oppose appearance of Republican officials before SC-- US Embassy The Hague has been informed by a Dutch official that his Government will not consent to the appearance of Republican Foreign Minister Salim or former Premier Sjahrir before the Security Council to present the Republic's position. Such representation, the Dutch believe, would recognize Republican sovereignty.

THE AMERICAS

4. ARGENTINA: Foreign Minister promises Argentine support to US-- Argentine Foreign Minister Bramuglia has informed US Charge Ray that Argentina "must and will" support the US internationally, and that any indications to the contrary are solely for domestic consumption. Bramuglia adds that the Argentine Government: (a) before the Rio Conference, would like to discuss with Secretary Marshall and Assistant Secretary Armour a possible US-Argentine anti-Communist agreement, preferably to be kept secret; (b) favors separate

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Rio treaties for intra-Hemisphere and extra-Hemisphere aggression; and (c) would welcome steps by the US toward a special economic conference prior to the Bogota Conference.

(CIG Comment: Joint action on aggression by American or non-American nations alike was agreed upon for the first time at the Chapultepec Conference in 1945. The Argentine position on separate treaties, if accepted by the Rio Conference, would cancel the progress achieved in this matter at Chapultepec.)

5. PARAGUAY: Rebels may occupy Asuncion--US Charge Trueblood in Asuncion reports, as of 9 August: (a) deterioration in the Government's military situation; and (b) Government loss of ground at a rate that might result in rebel occupation of Asuncion before the arrival of reinforcements from the north.

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GENERAL

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1. US ready to discuss German industry with France and UK-- The Department of State has instructed US Ambassador Caffery to inform Bidault that the US is prepared to confer jointly with France and the UK on a possible revision of the level of industry in the US-UK Zone Germany. Caffery is to assure Bidault that the fullest consideration will be given to French views, but is to explain that without a fusion of the French Zone in Germany with the US-UK Zone, all final decisions regarding German industry in the bizonal area must remain the responsibility of the US and the UK.

French halt Paris Conference discussions of steel--Caffery reports that technical committees of the Paris Conference have been halted in their work by the reluctance of the French delegates to participate in the preparation of reports based on the possibility of an increase of steel production in the US-UK Zone Germany.

EUROPE

2. AUSTRIA: US Representative recalled from ATC--The Department of State has requested US Representative Dodge at the Austrian Treaty Commission (ATC) to return to Washington at once for consultation. Dodge is instructed to announce at the next ATC meeting that because of Soviet unilateral action in seizing Austrian industrial plants and Soviet indifference to factual material presented by other ATC delegates, the Department considers it necessary to consult with Dodge about the future work of the ATC.

FAR EAST

3. NEI: Dutch favor US mission -- US Embassy The Hague reports that the Netherlands Government now regards the Linggadjadi Agreement as abrogated but still considers itself "morally bound" to maintain the principles of the agreement as a basis for future dealings with the Indonesian Republic. The Netherlands Foreign

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Office continues to oppose arbitration of the Dutch-Republican dispute and hopes that the US will send a mediating commission to Indonesia as soon as possible. The Foreign Office believes that the Republic would accept this US action despite its request that US good offices be used only to secure arbitration by an international commission.

US to repeat offer of good offices to Republic--The State Department has instructed US Consul General in Batavia to repeat the US offer of good offices to the Republican authorities. The Consul General is to point out, however, that the US does not intend that other nations participate in the exercise of these good offices which are intended only to bring both parties together to work out a mutually equitable settlement.

4. CHINA: Possible unified control in Manchuria--US Embassy Nanking has been informed by a source "believed reliable" that military and political control in Manchuria will shortly be unified under the overall command of General Chen Cheng, present Chief of Staff of the Central Government Army. US Embassy comments that while such a move to eliminate the present inefficient duality of control would indicate that the Central Government is attempting constructive action in Manchuria, these measures would not solve the pressing military problems in Manchuria or end major criticism of that Government's political administration there.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Bidault proposes an international board to allocate the production of the Ruhr (see item 1).

GREECE

While guerrilla activity continues on a slightly reduced scale, unconfirmed reports point to large troop concentrations and movements along the Greek border in the Satellite States.

INDONESIA

The Indonesian Republic has accepted the US offer of good offices but has requested that those offices be used to secure the dispatch of a UN arbitration commission to Indonesia as soon as possible.

KOREA

The US delegation to the Joint Commission reports that further discussion in the Commission along present lines has become absurd.

CHINA

No significant new developments.

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GENERAL

1. Bidault favors international board to allocate Ruhr products--Under Secretary Clayton has been told by Foreign Minister Bidault that France would not object to any US-UK agreement for the level of industry in western Germany, provided the French had assurance that the resources of the Ruhr would not again be employed in war on France. Bidault believes that such assurance could be obtained by the creation of an international board (composed of representatives from the US, UK, Benelux, France, and eventually Germany) to allocate the production of the Ruhr.

Clayton expresses the opinion that Bidault's suggestions should be accepted by the US as the basis for further conversations. Clayton believes that "France is the key country of the sixteen participating in the Paris Conference," and that French withdrawal or the fall of the present government, as a consequence of French dissatisfaction relating to Germany, would probably gravely jeopardize the whole European recovery program.

2. US believes Greek problem should go to UN General Assembly--The State Department has notified the US delegation to the UN that it is considering a statement informing the majority members of the Security Council of the US conviction that: (a) the Greek problem must be carried to the General Assembly, if the SC is unable to afford Greece the necessary protection; and (b) the General Assembly, in the event of the SC's continued failure to act, will exercise its powers "to the limit" for the protection of Greece (see Daily Summary of 7 August, item 2).
3. Douglas to stress US views on UK withdrawals--The Department of State has instructed US Ambassador Douglas to reiterate to Foreign Secretary Bevin our views concerning the unfortunate effects of an immediate withdrawal of British troops from Greece and Italy.
4. UK to postpone declaring end of war with Austria--The Department of State has been informed by the UK Embassy Washington that the

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Foreign Office will postpone any statement terminating the "state of war with Austria" (see Daily Summary of 7 August, item 3). The UK is now waiting for a Soviet reply to the last UK query on Soviet ratification of the Italian and Balkan Treaties. If the Soviet reply is unsatisfactory, or if no reply is received within a reasonable time, the UK will then issue statements simultaneously terminating the state of war with Italy and Austria.

EUROPE

5. CZECHOSLOVAKIA: Soviet infringement of sovereignty criticized -- US Embassy Prague reports that the leader of the moderate Catholic Peoples Party made a public statement recently declaring that his Party intends to resist Communist domination as long as circumstances permit. The Party leader is reported also to have made an "implied but quite obvious criticism of Soviet limitations on Czechoslovak sovereignty."

NEAR EAST-AFRICA

6. IRAN: Qavam endangers position as Prime Minister -- US Ambassador Allen reports that Prime Minister Qavam may have lost his chances of remaining Prime Minister by permitting Muzafar Firuz to continue as Ambassador in Moscow. Allen believes that the Shah now will almost certainly endeavor to remove Qavam.

(CIG Comment: The Shah is bitterly opposed to Firuz, who has consistently urged Qavam to appease Moscow. Firuz claims that the USSR will probably take drastic action if Iran rejects the Soviet oil proposals.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

US officials meeting in Paris consider that US objectives in Western Europe may not be attained without further US aid this year (see item 1).

GREECE

Dwight Griswold and Greek Government leaders in Athens are discussing the Government's recent request for greatly increased US military supplies to meet the growing guerrilla threat.

INDONESIA

The press agency of the Indonesian Republic has released a statement by Premier Sjarifoeddin concerning the Republican attitude toward settlement of the dispute (see item 5). Dutch authorities accuse the Republic of violating the cease-fire order, paralleling earlier Republican charges of new Dutch operations.

KOREA

The Joint Commission continues deadlocked as the Soviet delegation accuses the US of causing delays and violating joint decisions.

CHINA

The Chinese Nationalist Command is apparently becoming increasingly concerned over the probability that the Chinese Communists will launch strong offensives in Manchuria and north China within one or two months.

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GENERAL

1. US officials recommend further US aid to Europe in 1947--Under Secretary Clayton and Ambassadors Douglas, Caffery, and Murphy believe that in the absence of additional assistance from the US this year, conditions in the UK, France, and Italy may so deteriorate that US objectives in Western Europe and elsewhere may become unattainable. They suggest, therefore, that every conceivable avenue of providing interim assistance be carefully reviewed, possibly including the calling of a special session of Congress.

These US officials suggest, furthermore, that the US informally present specific recommendations to the Paris Conference on European economic recovery. They cite maximum coal production, monetary stabilization, and progressive reduction of trade barriers between participating countries as essential elements in the recovery program; and they suggest that failure by any participant to take effective action in these respects will be ground for reconsideration of the aid it is receiving.

2. Austin recommends US anticipation of Soviet veto--US Delegate Austin believes that the Department of State, in anticipation of a second Soviet veto on the Greek case, should make a policy decision by which the US will press the case in the General Assembly and will urge the Assembly to take action against Yugoslavia, Bulgaria, and Albania under Article 41 of the Charter, if developments warrant. (Article 41 provides for the complete or partial severance of transport communications and economic and diplomatic relations.) Austin feels that such a decision would bolster the friendly members of the SC who are now skeptical concerning further action on the Greek case.

EUROPE

3. ITALY: UK may declare end of "state of war" with Austria--US Ambassador Dunn has been informed by the UK Ambassador that the UK may soon declare the "state of war between England and Austria to be at an end." Dunn recommends that the US should overlook no

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opportunity to deter the UK from making such a declaration, in view of "the devastating blow it would give to Anglo-Italian relations by placing Austria in a position of official preference over Italy."

NEAR EAST-AFRICA

4. IRAN: Qavam seeks delay in Soviet oil matter--Prime Minister Qavam has confidentially informed US Ambassador Allen that he has in mind a plan which would delay decision on the Soviet oil question for perhaps two years. Qavam would first engage neutral geologists to determine the areas in which oil exists and then restrict any concession to such areas.

FAR EAST

5. INDONESIA: Republic demands UN arbitration--US Consul General in Batavia reports that a statement has been issued by Premier Sjarifoeddin declaring that the Republic will not negotiate with the Dutch until the arrival of a UN Commission. The statement announces that the Republic will reject all mediation and will agree only to arbitration, stressing in this connection the importance to the Republic of the demarcation lines between Dutch and Indonesian forces at the commencement of hostilities on 20 July 1947. Consul General Foote warns that Premier Sjarifoeddin's statement may be for internal consumption and suggests that the Republic's reply to the US offer of good offices may differ in tone.

(CIG Comment: The emphasis by the Republic upon the problem of the demarcation lines indicates that the Republicans will probably insist on the withdrawal of Dutch forces to the 20 July positions before entering into any negotiations. Such a stand will seriously delay any moves toward settling the dispute.)

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6. **CHINA:** Fear expressed that US aid will be delayed--A reliable source, according to the US Naval Attache Nanking, quotes the Deputy Commander of Chinese Nationalist Ground Forces as saying that "US aid to China will be overly delayed by the necessity of waiting for the next session of Congress, unless the US President can be persuaded to declassify certain material." The Commander cited as precedent "a similar method of handling aid to Britain prior to war." (He was presumably referring to such transactions as the classification of 50 US destroyers as obsolete and their subsequent transfer to Great Britain.)

(CIG Comment: It is doubted that any such US action would materially alter the Nationalist military outlook for the near future. Moreover, there is a real possibility that US military equipment, if supplied to the presently inadequate and disorganized Nationalist military administration, would be grossly mis-used and might even find its way into Chinese Communist hands.)

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CRITICAL SITUATIONS

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EUROPEAN RECOVERY

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The UK Government has informed Parliament that it will immediately reduce food purchases from hard-currency areas as one means of slashing dollar expenditures.

GREECE

In an effort to insure the success of the US aid program, Dwight Griswold has recommended that the US replace British troops in Greece with US troops (see item 1).

INDONESIA

Indonesian Republic authorities charge that the Dutch have violated the agreement to comply with the SC cease-fire request by capturing two more towns since the truce deadline. The Republic also announces that it no longer considers itself bound by the Linggadjati Agreement and desires solution of the conflict by an international commission.

KOREA

Negotiations in the Joint Commission are expected to break off within the next two weeks. Fresh political disorders in Korea will undoubtedly ensue.

CHINA

Deep-rooted fears that Japan, with US backing, will regain a position of economic supremacy in Asia underlie the frequent outbursts against the growing Japanese menace from official Chinese sources and broad sections of the Chinese public. Such fears are likely to be increasingly reflected in Chinese Government policy toward Japan, especially if China itself fails to receive US assistance.

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GENERAL

1. Griswold recommends US replace UK troops in Greece--AMAG Chief Dwight Griswold has recommended that if British troops are withdrawn from Greece, they should be replaced by US troops. He believes, however, that this plan should be adopted only after Greek political leaders have agreed to broaden the present Government. US Ambassador MacVeagh questions the wisdom of making the decision to send troops contingent on the willingness of Greek politicians to form a more representative Government because: (a) such a decision must rest on considerations far transcending Greek internal problems and involving US-Near Eastern policy; and (b) Greek politicians, understanding this situation, will probably delay broadening the Government, "if they do so at all."
2. US officials approve immediate high-level US-UK discussions--Under Secretary Clayton and Ambassador Douglas have recommended approval of Bevin's proposal for immediate high-level US-UK discussions of the British financial position and its international implications.
3. Sugar Act and Rio Conference--US Ambassador Pawley reports that: (a) he feels "reasonably certain" that at the forthcoming Rio Conference an attempt will be made to force discussion of Clause 202E of the recent US Sugar Act; (b) Mexico and Uruguay, and perhaps Bolivia and Colombia, will possibly support such an attempt; and (c) a high Brazilian official believes that Brazil will support the US "should a controversy arise." (Clause 202E permits the cancellation of any increased sugar quotas for any country that in the US view discriminates against US commercial interests.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Under Secretary Clayton reports from Geneva his conviction that the British, French, and Italian economic situations "are almost certain to blow up" if US aid is not forthcoming before March 1948.

GREECE

Although recent reports indicate dissension between Communist leaders sent to Greece from the Satellite states and their Greek opposite numbers, such disagreement is having no visible effect on the conduct of the guerrilla war.

INDONESIA

Dutch forces have achieved the principal objectives of their "police action," but implementation of the cease-fire agreement requested by the UN Security Council may be impeded by the Republican demand that Dutch troops be withdrawn behind demarcation lines fixed on 14 October 1946.

KOREA

The Joint Commission remains deadlocked.

CHINA

Recent reports from Manchuria fail to substantiate Chinese Government charges that the USSR has supplied the Chinese Communists with Soviet-made military equipment.

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GENERAL

1. USSR reportedly threatens Iran on oil proposal--The State Department has been informed by the British Embassy in Washington that Molotov reportedly told the Iranian Ambassador in Moscow recently that: (a) the Iranian Parliament's action on the Soviet oil proposal will be the "acid test" of friendly Soviet-Iranian relations; and (b) should Parliament fail to ratify the proposals, the "independence of Iran would be at an end."

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2. President of SC reportedly ordered to favor Egyptian case--
 President Quwwatli of Syria has informed the Egyptian Government that it may look upon Faris al-Khuri (Syrian delegate to the UN and currently president of the Security Council) as an Egyptian delegate. Quwwatli reportedly added that al-Khuri will carry out Egyptian instructions to the letter during the hearing of the Egyptian case against the UK.

(CIG Comment: Egypt has timed its appeal to coincide with al-Khuri's term as president of the SC. Even with the assurance of his support, however, the success of the Egyptian case is doubtful.)

EUROPE

3. HUNGARY: Socialists protest Communist rigging of 31 August elections--US Minister Chapin reports from Budapest that the national electoral campaign has begun with an angry protest by the Social Democratic Party against the illegal tactics of the Communists. Despite a previous joint declaration of unanimity, the Socialists have sent an ultimatum declaring that unless the Communists stop cheating and intimidating, the Socialist Democratic Party will withdraw from the elections.
4. BULGARIA: Government prepares Soviet-type "trial" for Petkov--US Political Representative Horner in Sofia reports that prior to the trial of Opposition Agrarian Leader Petkov, the Rumanian Government: (a) coerced factory and government workers to participate in mass meetings which demanded the death penalty for Petkov; (b) ar-

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rested two attorneys whom Petkov had designated to represent him; (c) extracted by torture "confessions" from three Agrarian Deputies known to be faithful Petkov supporters. Horner adds that on the opening day both US and UK Representatives in Sofia were refused admittance to the trial. He also reports that the Government is expected to impose the death penalty.

FAR EAST

5. CHINA: Soviet assistance to Chinese Communists--According to Assistant US Military Attache Barrett, twenty Japanese and Koreans taken prisoner by Chinese Nationalist forces at Ssupingkai stated that: (a) they were not forced to enter military service but joined the Communist troops in order to get food and employment; and (b) they had seen no evidence of Soviet aid to Communists in Manchuria. (The Acting Commander of the Nationalist forces in Manchuria has also expressed to Barrett his belief that the USSR is supplying the Communists with Japanese equipment only, because the supplying of Soviet equipment "would give away Soviet policy to the US.")

THE AMERICAS

6. DOMINICAN REPUBLIC: Sea and air search yields negative results--Commander, Caribbean Sea Frontier reports that a 2-4 August sea and air search of Caribbean waters for Dominican revolutionaries allegedly en route to Hispaniola from Cuba yielded negative results. According to the US Military Attache Havana, aircraft belonging to Dominican revolutionaries have been seized by the Cuban Army Air Force.

(CIG Comment: The inability of the Commander, Caribbean Sea Frontier to discover evidence of unusual movement of either ships or men from Cuba toward the Dominican Republic confirms earlier CIG analysis regarding the exaggerated character of these reports.)

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CRITICAL SITUATIONS

EUROPEAN RECOVERY-GREECE

Bevin has proposed immediate high-level US-UK discussions on the UK financial position and its international implications. In response to US expression of concern over UK intentions, Bevin insists that no fundamental change in foreign policy is implied in the sudden UK decision to reduce its troops in Greece and Italy (see item 1). US representatives deplore the disturbing effects of this "ill-timed" decision on the stability of the Italian and Greek Governments (see item 2).

INDONESIA

Although both Dutch and Indonesian Republic leaders have agreed to cease fire in response to the UN request, considerable doubt exists whether such an order can be enforced by both sides, in view of the continuing causes for tension between the two parties.

KOREA

The US delegation to the Joint Commission believes it will be able to spin out negotiations with the USSR for only two more weeks, barring unexpected developments.

CHINA

Chiang Kai-shek's current all-out effort to improve the Nationalist military position in Shantung prior to the departure of General Wedemeyer appears designed to justify a request for sufficient US aid to extend Nationalist offensive operations to Manchuria.

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GENERAL

1. Bevin intends no foreign policy change--In response to Secretary Marshall's expression of concern over the announced withdrawal of British troops from Greece and Italy (see Daily Summary of 2 August, item 1), Bevin has assured US Ambassador Douglas that UK foreign policy changes are not implied in this decision. He added that the precise extent of UK troop reductions abroad has not definitely been settled and that the Cabinet's announcement in Commons will probably be made only in the most general terms. Bevin asked how long the US desired UK troops to remain in Greece and stated that before the Cabinet makes any final decision regarding UK troops in Italy, he will communicate with Douglas.



3. USSR asks Austria for copies of economic conference documents--US Ambassador Caffery reports that Vollgruber, Austrian delegate to the Committee of European Economic Cooperation, has been requested by the Soviet Embassy in Paris to make available to the USSR copies of all Paris conference documents. The Chairman of the Committee has suggested to Vollgruber that this is a matter which the USSR should take up with the Austrian Government at a top level.

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EUROPE

4. **UK: Anti-US sentiment increasing--US Ambassador Douglas reports, after conversations with Bevin, that anti-US sentiment seems to be growing within the UK Labor Party and that this sentiment may be increased when the impending drastic measures to save dollars are announced by the Government. As causes for this sentiment, Bevin laid particular emphasis on US financial contributions to illicit Palestine activities, criticism in the US of British management of the Ruhr coal operation, the burdensome conditions of the US loan, and the 50-50 sharing of German occupation costs.**

Douglas adds that Bevin believes a US-UK schism may be developing. Douglas comments that if the USSR notes a deterioration in US-UK relations, it may "step up the pattern" of its tactics.

THE AMERICAS

5. **PARAGUAY: Rebel force 32 miles from Asuncion--US Charge Trueblood reports that the Rebel fleet, now reported to consist of some 20 vessels with several thousand troops, reached on 2 August a point 32 miles north of Asuncion where Government opposition compelled them to turn back upstream.**

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

The Executive Committee at the Paris Conference has demonstrated a readiness to tackle such basic questions as multilateral elimination of quota restrictions and progressive reduction of tariff barriers with a view to reaching a customs union. French representatives have expressed concern for France's economic and political stability if US assistance under the European plan is not forthcoming until March 1948.

GREECE

In view of the Soviet veto in the Security Council, US and UK representatives in Athens are re-estimating the military situation. They agree that the Greek Army, properly deployed, will be able to cope with present guerrilla strength. UK representatives, however, doubt that the AMAG program will immediately discourage further guerrilla recruitment. The US Government has expressed its concern over the UK decision to withdraw its troops (see item 1).

INDONESIA

The UN resolution calling for cessation of the Dutch-Indonesian hostilities and arbitration offers both parties a final opportunity to reach a settlement prior to any UN decision to claim full jurisdiction in the controversy.

KOREA

Stalemate in the Joint Commission continues.

CHINA

Chiang is seeking to purchase ten million rounds of US aircraft ammunition (see item 7).

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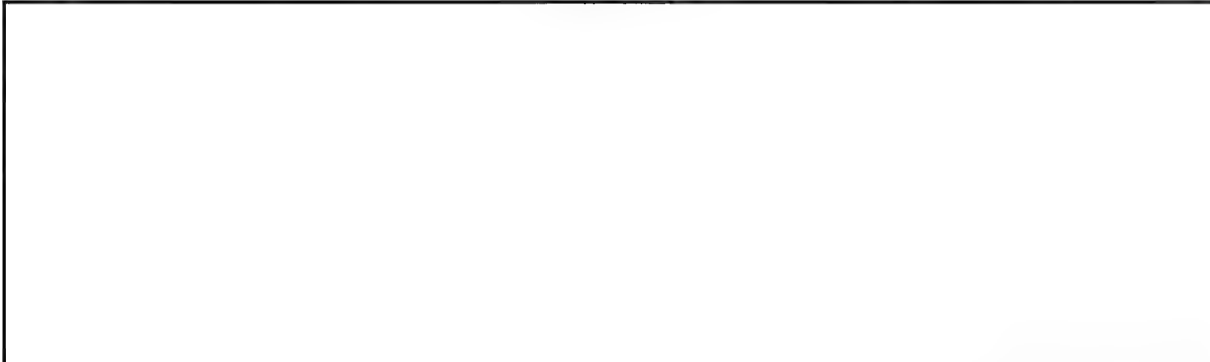
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GENERAL



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2. Argentina proposes pre-Conference understanding with US--US Embassy Buenos Aires has been assured by Enrique Corominas, one of the principal Argentine delegates to the Rio Conference, that Argentina will bring up no controversial matters at the Conference, and that in Argentina's view: (a) a completely united front against aggression by an extra-continental power, especially the USSR, must override "all other considerations"; and (b) because Argentina is the "only nation which counts besides the US," a pre-Conference understanding between the two countries would eliminate all difficulties. Corominas, whose remarks were in the Embassy's opinion "inspired" by Foreign Minister Bramuglia, offered to arrange a conversation between the Embassy and the Foreign Minister to discuss such a pre-Conference understanding.
 3. "Southeast Asia Federation Committee" appeals to UN--US Military Attache Bangkok reports that a Southeast Asia Federation Committee, composed of a "local Viet Minh committee, free Laos, free Cambodians, Indonesians, Burmese, and free Thai," has been formed in Bangkok. The Committee has issued a manifesto appealing to the UN for aid for the conflict areas and has requested that the problems of Southeast Asia be considered as a whole.

(CIG Comment: Continued efforts by nationalist groups in Southeast Asia to obtain regional action by the UN may be expected.)

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EUROPE

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4. GERMANY: Creation of a German Government for the Soviet Zone--
[] the Soviet Military Authority (SMA) has renewed discussions with German political leaders concerning the creation of a government for the Soviet Zone, including the Soviet sector of Berlin. (see Daily Summary of 1 July, item 2). The USSR reportedly desires that the formation of such a government be completed by 14 August.

(CIG Comment: The USSR has denounced the union of the US and British Zones in Germany as political rather than economic. Having already matched the US-UK bizonal economic administration with a central economic administration for the Soviet Zone, the SMA would regard the creation of a zonal Government as a logical development. Manifestly such a Government could readily be converted into a Soviet satellite state in Germany, its nominal independence exerting considerable attraction upon Germans in the Western Zones. That further step, however, would compromise the USSR's present effective pose as the champion of German unity in opposition to separation and partition. It is not likely to be taken unless and until the CFM meeting in November proves unification on Soviet terms to be impossible and partition an accomplished fact perversely attributable to Western "imperialism.")

5. AUSTRIA: Influx of Jewish DPs into US Zone--US Minister Erhardt reports that the steady influx of Jewish refugees into the US Zone of Vienna, which is currently caring for 7,000 persons in camps with a normal total capacity of 2,000, is creating serious problems of crowding, feeding, and sanitation.
6. BULGARIA: Division in Communist Party rumored--Acting US Representative Horner reports a revival of rumors in Sofia that a difference of opinion exists within the Bulgarian Communist Party. The "moderates," headed by Provisional President Kolarov and Tsola Dragoicheva (National Secretary of the Fatherland Front) reportedly favor a more independent Bulgarian policy in contradistinction to complete subservience to the USSR. Horner considers that the existence of such a rift was in part substantiated by Finance Minister Stephanov, who, in a conversation with the Acting US Representative, dismissed the anti-US press campaign as "propaganda for the masses" and expressed great interest in the revival of Bulgarian-US economic relations.

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FAR EAST

7. **CHINA:** Chiang request 10 million rounds of aircraft ammunition-- Generalissimo Chiang Kai-shek has indicated to US Ambassador Stuart his desire to purchase 10 million rounds of M-2 .50 caliber aircraft machine gun ammunition, with links, from the US for immediate delivery and use. Stuart has advised Chiang to communicate directly with the Chinese Embassy in Washington for negotiations with the War and Navy Departments.

THE AMERICAS

8. **DOMINICAN REPUBLIC:** Developments in rumored invasion--US Ambassador Butler reports that:(a) Ciudad Trujillo is quiet and orderly although a newspaper has now published reports of the supposed imminent invasion; and (b) both Army and Navy air forces are conducting patrol missions. According to the US Military Attache, the Dominican Army expects landings to be attempted on the island's north coast.

US Ambassador Corrigan transmits from the Venezuelan capital a report from an informant whom he considers trustworthy that 350 Dominicans and Venezuelans, some of whom are allegedly Communists, have left Venezuela over the past five days to participate in the attempted ouster of Dominican President Trujillo. Corrigan believes high Venezuelan officials are "countenancing" the movements of men and equipment from Venezuela for use against Trujillo.

25X1X [] states that:(a) Haiti's Chief of Staff is apprehensive regarding his army's ability to repel any large invasion force that might attempt to land in Haiti; and (b) Haitian civil and military officials have a report that large Dominican forces are ready to cross the border into Haiti to engage any forces that may attempt to land there.

The State Department has informed US Embassy Ciudad Trujillo that it will henceforth permit arms exports to the Dominican Republic on the same basis as those to the other American Republics-- that is, whenever in the Department's view they are "reasonable and necessary" from the standpoint of internal order, self-defense, or international obligations vis-a-vis the Security Council.

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9. PARAGUAY: Rebels attack Government High Command--US Charge Trueblood Asuncion reports that: (a) some 1,000 rebels proceeding from Asuncion in two armed boats have surprised the Government High Command at Ypapobo (between Concepcion and Asuncion on the Paraguay River) with an attempted landing operation; (b) conflicting reports of an imminent rebel attack on Asuncion itself have caused the Government to adopt precautionary measures there; and (c) he is inclined to credit the Government claim that Concepcion has fallen to its troops.

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CRITICAL SITUATIONS

EUROPEAN RECOVERY

Further retrenchments in the UK domestic economy are under discussion by the UK Government.

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GREECE

Dissension in the Greek Cabinet concerning the organization and direction of the Army has resulted in the withdrawal from a Cabinet meeting of General Zervas, Minister of Public Order. Interference by politicians continues to impede the Army's task of suppressing guerrilla forces.

INDONESIA

Continued large-scale destruction of Chinese property and the loss of Chinese lives, which have been the subject of official Chinese Government protests to the Republican Government, may result in Chinese support of the Dutch if action is taken by the UN. The Dutch may revise their military plans to include occupation of the Republican capital (see item 3).

KOREA

The deadlock in the Korean Joint Commission remains unbroken.

CHINA

The Chinese Government's new declaration of a policy of non-discrimination against foreign interests will probably fail to alter the present "wait and see" attitude of private foreign capital toward China.

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EUROPE

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2. **FRANCE:** Socialists seen as "clearly anti-Communist"--US Embassy Paris reports that, according to Socialist informants, the dominant attitude at the French Socialist Congress scheduled for 15 August will be clearly anti-Communist and anti-Stalinist.

(CIG Comment: The effect of the Marshall proposals upon the French political situation has been in part to give strength to the Ramadier Government by widening the distance between the French left-wing Socialists and the French Communists, with whom the former have often collaborated in the past on domestic issues.)

FAR EAST

3. **NEI:** Reported Dutch military plans--The US Military Liaison Officer Singapore, who returned from Batavia 30 July, reports that Lieutenant Governor General Van Mook probably will ask The Hague for authority to occupy the Republican capital in the event that the present Republican Government does not dissolve itself within the next few days. (Dutch authorities hitherto have stated that they had no intention of occupying Jogjakarta.)

THE AMERICAS

4. **CUBA:** Reported "feverish" Dominican revolutionary preparations--US Military Attache Havana reports that "feverish preparations" point to action by the Dominican revolutionaries on 1 August and to a possible "coordinated effort" from both Cuba and Venezuela.

US Embassy Port-au-Prince reports that the Haitians are "anticipating trouble," that an alert has been ordered, and that a state of siege will be declared in case of landings on Haitian territory.

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5. BRAZIL: Developments in Soviet arms-smuggling story--US
Military Attache Rio reports that, according to a Brazilian War Ministry informant, certain arms landed in southern Brazil from a Soviet ship early in July have now been delivered to their destination. According to the US Naval Attache Rio, the Soviet ship Azov left Santos, Brazil on 1 July and arrived tardily at Buenos Aires in ballast on 8 July. The MA adds that the recent Brazilian aerial reconnaissance flights (which produced no evidence of Soviet arms smuggling; see Daily Summary of 28 July, item 12) were "improperly executed and inconclusive."

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